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FINANCIAL MANAGEMENT IN THE
DEPARTMENT OF THE NAVY

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THESIS

FINANCIAL MANAGEMENT IN THE
DEPARTMENT OF THE NAVY

by

Lynn Carol Struthers
and
Kenneth Edmund Wenzel

Thesis Advisor: CDR. James F. Schumann

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Financial Management in the
Department of the Navy

by

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requirements for a degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL
June 1974

ABSTRACT

This thesis analyzes the strengths and weaknesses of the present Naval Postgraduate School (NPS) Financial Management Curriculum. It considers the operational requirements of the Navy financial manager. On the basis of these analyses, it concludes that an additional required course be incorporated in that curriculum.

This proposed course of instruction in financial management and accounting is tailored to meet the needs and requirements of United States Naval Officers who will be graduates of the NPS Financial Management Curriculum. The course deals with the principles of financial management which are relevant to the public sector. Further, it takes these principles and concepts and relates them to specific applications in the United States Navy.

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I. INTRODUCTION

The genesis of this thesis stemmed from the feeling by the writers that the Financial Management Curriculum of the Naval Postgraduate School (henceforth NPS) did not address in sufficient detail the unique or specific applications of financial management in the Navy. The present financial management curriculum at NPS adequately covers the theories, concepts and principles of financial management. However, the applications of these concepts are covered with respect to private enterprise. The curriculum does not provide the Naval Officer graduate with a sufficient appreciation of those similarities and differences which exist between financial management functions in the private and the public sectors. It also does not provide an understanding of the control of funds within the Department of the Navy (henceforth DON).

The feelings of the writers were confirmed by a brief study of the scope of above problems. Stimulated by the confirmation of these deficiencies and encouraged by members of the faculty who recognized the need for the curriculum to be responsive to changing operational requirements, this thesis was undertaken.

This introduction is the first of five chapters which, when combined with two appendices, make up the main body of this thesis.

Chapter II explores in detail what has been identified by the writers as three aspects of the problem which this thesis undertakes to resolve. These aspects are:

1. The present curriculum does not include coverage of fund accounting--essential to understanding accounting in the public sector.

2. The curriculum insufficiently utilizes andragogical techniques--those techniques relating to adult education.

3. No capstone course presently exists at NPS which draws together the relevant principles of financial management and relates them to specific Naval applications.

Chapter III explains the method of investigation and analysis employed in conducting this thesis effort and traces the effort through the actual implementation of the recommended solution.

Chapter IV is the presentation of the findings of this thesis effort, namely, that a new course be included in the financial management curriculum. It includes a description of two specific compilations of material.

1. "Guide for Class Sessions" (Appendix A)

2. "Students' Manual" (Appendix B)

Chapter IV also includes a description of the recommended course in terms of four course modules:

1. Fund Accounting

2. Federal Government Budget Process and Introduction to Navy Financial Management Systems

3. Planning, Programming and Budgeting

4. Fund Control and Budget Execution (Navy)

Chapter V highlights the fundamental conclusions of the thesis.

This thesis, then, addresses the deficiency of the NPS Financial Management Curriculum to include adequate treatment of Navy related material and presents a recommended solution in terms of a capstone course. It does so in order to make the curriculum more responsive to the needs of the graduates and the Navy.

Since the main effort of this thesis was to develop this meaningful and needed course shown in appendices A and B, the description of the need, the investigation and the development of the course has been kept brief.

II. EXAMINATION OF THE PROBLEM

A. COMMENTS ON THE CURRICULUM

This section looks at and comments on the financial management curriculum at NPS. It discusses recent changes and identifies additional areas requiring change.

1. Previous Curriculum Studies

In July 1970, a study of the NPS Management Curriculum was conducted by a Visiting Committee, chaired by Dean William Pounds of the Massachusetts Institute of Technology's Arfred P. Sloan School of Management. In January 1971 a committee of Naval officers made a second study of the curriculum. This study is referred to as the Captains Study and it was chaired by the then Captain R. B. Freeman III. These studies indicated that the curriculum should be lengthened and that the requirement for a thesis be reinstated.

Accordingly, in an effort to make the curriculum more flexible and therefore more responsive to the Navy's needs the time available for the course of studies was lengthened to one and one half years. The first six months of this lengthened curriculum was designed in such a manner that many of the courses could be validated by students who had been recently exposed to such courses.

In addition to this change a requirement for a thesis was reinstated. These changes made the curriculum more comprehensive in nature and afforded the students an opportunity to broaden their educational experiences in a specialized area of interest. This thesis requirement also allowed the masters candidates to make a contribution to their academic field while applying management concepts to DON, and as a result benefit the Navy. As constructive as these changes were it is a contention of the writers that the curriculum still was not broad enough.

2. Financial Management Curriculum Emphasis

The broad educational base of the graduate of the financial management curriculum of this publicly financed institution (i.e. NPS) should address the private sector due to the pervasive nature of private enterprise in our nation's free economy. However, the curriculum should also address problems unique to DON. The alumni of this particular graduate institution will be employed in the public sector. Therefore, it becomes clear that the curriculum should be broadened to include an added dimension which explores the financial management distinctions unique to the public sector and specifically DON.

3. Andragogical Considerations

In addition to the above considerations there is a very real need for studies in this area to be designed with consideration given to the maturity and experience of the current and prospective student. As Malcolm S. Knowles explores in his book The Modern Practice of Adult Education: Andragogy versus Pedagogy (ref. 1)--courses designed for adults must allow for the diagnosis of needs from the students' standpoint. Knowles presents distinctions between Pedagogy (the art and science of teaching children and youths) and Andragogy (the art and science of helping adults to learn). In developing what he might term andragogical considerations, Knowles relates that adult students are a rich resource for learning, that is, their variety of experiences are very relevant. Of particular importance, Knowles points out, is that adults learn more efficiently when they can foresee direct application of the subject material (whereas postponed application is not detrimental to the learning process of the less mature mind of youths and children).

As the period of instruction at the Naval Postgraduate School draws to a close the officer students increasingly become concerned with their future duty assignments. Plans for the moving of their family and possessions are being formulated, thesis completion becomes paramount and the students become more and more practically oriented. Therefore, at this point in their program abstract courses are not as interesting or instructive as they previously might have been. Clearly what is desired are courses which, while

being of educational value, are also directly applicable to the needs and concerns of the prospective graduates. Courses which capitalize upon the fertile ground of officer-student experiences are highly desirable and extremely valuable.

The current curriculum is somewhat deficient with respect to andragogical considerations. Therefore, in addition to the requirement to broaden the curriculum in the area of public sector financial management, there is also a need to incorporate the unique requirements of adult education explained above.

B. SURVEY OF CURRICULUM NEEDS

The need to include specific Navy related material in the financial management curriculum was confirmed by discussions with students, graduates and faculty members at NPS. After this need had been confirmed, it was planned to contact financial management graduates in order to obtain their comments on what specific material should be included. During the process of planning this phase of the thesis development, it was learned that the Director, Fiscal Management Division (OP 92) of the Office of the Chief of Naval Operations, as a part of a larger survey had already obtained this information.

1. Background

The Director, Fiscal Management Division (OP 92) undertook a broad review of financial managers in the Navy as a staff study for the Director, Navy Program Planning (OP 090), who is the Subspecialty Consultant for the Financial Management Subspecialists in the Navy. This survey

included among it's objectives the appraisal "of the attitudes, trends and needs of today's financial managers, in both the professional and academic arenas." (Ref. 2, p. 1) Therefore, a part of this study was devoted specifically to postgraduate education including comments from graduates of the financial management curricula at both NPS and at George Washington University. Appropriate comments from this survey are included below.

2. Findings

In the area of financial management education, this survey found:

"An overwhelming majority of respondents indicated a desire for more Navy input into the graduate financial management curriculum at both USNPGS and at GWU. As indicated by 80% of the respondents, the Navy, through guidance from the Subspecialty Consultant (Director, Navy Program Planning) should provide the students with an increased number of lecturers, case studies, projects, course material, etc., related to the 'real world' Navy financial management." (Ref. 2, p. 5)

3. Recommendations

The study went on to recommend that:

"The Director, Navy Program Planning should pursue the establishment and implementation of a Navy Financial Management Seminar/Course for inclusion into the regular financial management curriculum at both USNPGS and GWU. This course should teach the principles, but not the 'nuts and bolts' of Navy financial management in the areas indicated to be most desirable by the respondents." (Ref. 2, p. 6)

Among those subjects which the financial manager respondents felt should be included in the educational processes were a basic understanding of the following factors:

1. Defense Budget Preparation and Review Process
2. Budget Execution Process (Navy)
3. Resources Management System (RMS)

4. Planning, Programming and Budgeting System (PPBS)
5. Economic Analysis
6. Federal Budget Cycle
7. Program Management
8. Use of Information Systems--Navy Cost Information
System (NCIS)
9. Cost Estimating Techniques
10. Financial Management in Specific Types of Naval
Activities (i.e. Public Works Centers;
Hospitals; Shipyards; etc.)
11. Navy Auditing
12. Management of Working Capital Funds
13. Project Management
14. Progress Measurement
15. An Overview and Comparison of Financial Management
in the Army, Air Force, and Navy
16. Comptrollership/Controllershship Compared
17. Financial Management of Non-Appropriated Funds
18. DOD/GAO Relationships
19. Selected Acquisition Reports (SAR) Requirements/
Analysis
20. Joint Uniform Military Pay System (JUMPS)
21. Navy Accounting (Written in)

(Ref. 2, p. 15)

C. WRITERS' ANALYSIS OF FINANCIAL MANAGEMENT CURRICULUM

On the basis of the results of the aforementioned survey and in terms of the subject areas listed as important therein by operational financial managers, the writers analyzed the current NPS Financial Management Curriculum. The analysis determined that the present curriculum needed to be expanded. Specifically, while some of the subject areas listed above were now adequately covered, others were not. Accordingly, it was realized that any attempt to broaden the curriculum must take into account and be synthesized with those subjects already taught. The curriculum analysis is highlighted below.

Course MN 3172 (formerly MN 3170): Public Policy Process/Defense Resource Allocation is the first required course which exposes the NPS financial management student to public sector considerations. These considerations include Department of

Defense (henceforth DOD) matters, DON matters and their inter-relationships. This course explores the history and development of budgeting within DOD. It delves deeply into the Planning, Programming, Budgeting System (henceforth PPBS), as employed by that department. The participants in the planning process and the roles they play are identified. Three approaches to viewing this process are explored:

1. The Rational
2. The Bureaucratic
3. The Political

Beyond these PPBS particulars the course touches on some detailed macro-economic considerations of public goods (i.e. Defense). This course, however, does not explore the federal government budget process in its entirety. It completely excludes an exploration of detailed budget execution considerations. Knowledge of these considerations is essential to the officer engaged in financial management activities.

A second course required in the financial management curriculum, MN 4145: Systems Analysis, explores systems/economic analysis in some detail. Included in this course is an exposure to various cost estimating techniques. This course does provide the students with an adequate background in systems/economic analysis.

The topical areas listed below (as taken from subsection II - B - 3) are covered in elective courses outside the financial option:

1. Program Management
2. Progress Measurement

3. Selected Acquisition Reports (SAR)

4. Project Management

Financial elective course MN 4181: Management Information Systems, deals primarily with the need for, and the establishment of such systems in private business. However, the course does not specifically explore the Navy Cost Information System. Financial elective course MN 4151: Internal Control and Auditing, covers adequately the principles, practices, procedures and standards of auditing. These factors are relevant to both the private and public sector. Therefore, in a general way they are relevant to the Naval Audit Service. However, MN 4151 does not focus upon their unique applications to auditing Naval activities. NPS financial management students should be exposed to the organization, procedures and problems of auditing in the Navy.

The NPS Financial Management Curriculum covers the basic principles, theories and concepts of accounting in sufficient detail, with one exception--fund accounting. There is only nominal mention of accounting applications and the unique terminology used within the world's largest "business"--the United States Federal Government. One must realize that there are readily apparent differences in this unique environment of governmental fund accounting. Terminology commonplace in governmental operations such as: General Fund, trust funds, appropriations, commitments, expenditures, disbursements, allocations, allotments, responsible offices, 3679 responsibility and revolving funds, is left uncovered.

This analysis of the current NPS Financial Management Curriculum led, then, to the finding that the following list of topics (as taken from sub-section II - B - 3) were not being addressed in sufficient detail:

1. Navy Budget Execution
2. Resource Management Systems
3. Federal Budget Cycle
4. Navy Cost Information System
5. Financial Management in Specific Types of Naval Activities
6. Navy Auditing
7. Management of Working Capital Funds
8. Navy Comptrollership
9. Navy Accounting

This ascertainment was one of the important results of the writers curriculum analysis.

This analysis also disclosed that while those separate courses outlined previously which covered the below listed topics (as taken from sub-section II - B - 3) were very relevant and beneficial, they were indeed separate courses. Therefore, the specific body of information of financial management unique to the public sector was not synthesized for the students making it difficult to connect and understand their interrelationships.

1. Defense Budget Preparation and Review Process
2. Planning, Programming, and Budgeting System
3. Economic Analysis

4. Cost Estimating Techniques

5. DOD/GAO Relationships

Finally, the remaining topics from the list in subsection II - B - 3 are not covered in the NPS Financial Management Curriculum. They are:

1. An Overview and Comparison of Financial Management in the Three Services.

2. Financial Management of Non-appropriated Funds

3. Joint Uniform Military Pay System (JUMPS)

D. SUPPORTING COMMENTS

In addition to the survey previously mentioned, interest in financial management at the higher echelons of the Department of the Navy was indicated by the Chief of Naval Material in a recent letter to the Superintendent of the Naval Postgraduate School (Ref. 3). That letter addressed the need for Naval officers to have a broad understanding of financial management concepts and also the ability to apply this understanding in their career assignments.

A very real difference exists between the needs of financial managers from the private and the public sectors. Financial managers who operate in private industry, generally speaking, need only be concerned with those aspects of such management which relate to private industry. However, financial managers who are also Naval officers, must be concerned with both private industry considerations and specific public sector concepts. This is necessary, as the Chief of Naval Material points out, to enable the Naval Officer to

relate and interact capably with the private sector while performing their duties in the public sector.

E. SUMMARY STATEMENT

In summary, the requirement and the need for a broader understanding of financial management as it applies to the Navy has been identified by officers in the various echelons within DON, including the CNO/CNM levels. Although the NPS financial management graduate has gained most of the required management tools, he lacks a working knowledge of the unique applications of these tools in the Naval environment. In addition, it is recognized by the writers that there is a requirement that any material presented at this graduate institution should have general educational applicability within the total public sector as well as specific relevance to financial management in the Navy.

Beyond this, it has been identified that the current curriculum does not allow for the drawing together of the dispersed coverage of information concerning public sector financial management now taught. A Management Policy course, MN 4105, provides a capstone which draws together the various management concepts and considerations such as marketing, accounting, finance and labor relations, through the consideration of case studies in private enterprise. The Naval financial management student, however, needs a second capstone course. The present curriculum does not offer such a course which draws together the principles, practices and procedures of financial management, as they are applied within DON.

This second capstone course would be extremely valuable to the NPS Financial Management graduate since most of his education has dealt with the private enterprise applications of such principles.

While andragogical techniques are employed to some degree in the method of instruction within the management curriculum as a whole, they are not applied as effectively as they might be in the financial management option.

This thesis is an effort to rectify the deficiencies noted in the NPS Financial Management Curriculum and to make that curriculum more responsive to the needs of the student and the Navy.

III. DESIGN OF INVESTIGATION

A. INITIATION

The writers' feeling that the present NPS Financial Management Curriculum did not adequately prepare Naval Officers to take their place as operational financial managers was the origin of this thesis effort. This led to a brief inquiry to confirm or deny this feeling. The inquiry confirmed the feeling and resulted in the selection of the general topic area to be addressed. Further investigation was then undertaken to more clearly identify the problem and simultaneously explore possible solutions.

B. DISCUSSIONS

The initial investigation took the form of discussions with faculty members, alumni, and financial management students at NPS. Everyone involved in these discussions felt that there was a need for this particular thesis effort and offered encouragement.

C. PHONE CONVERSATIONS

These discussions resulted in the investigation being extended, for the purpose of obtaining additional input on needs and requirements from the Washington, D. C. level, to include phone conversations with representatives of the Financial Management Subspecialty Advisor in Washington, D. C. who had previously undertaken investigations in this topical area. These phone calls further confirmed the need for this thesis and that it would be beneficial to both the Navy and those involved in the effort if it were undertaken. With the assistance of Captain Lovell and Lieutenant Commander Baker of the Fiscal Management Division, under the Director, Navy Program Planning, interviews were scheduled with personnel directly involved with the Navy's financial management programs in Washington, D. C.

D. INTERVIEW SESSIONS

In order to investigate specific areas more completely, arrangements were made with interested parties in the Washington, D. C. area. Accordingly, personal interviews were held with the Deputy Chief of Naval Material (Procurement and

Production) regarding project management, the Director of Financial Management (Comptroller) for the Office of Naval Research, the Director of the Navy Logistics Management School and representatives of the Naval Audit Service. Also interviewed were experts involved with the Navy's budget execution process, the Navy Cost Information System, the working capital fund budget and economic analysis.

These interviews resulted not only in an increased appreciation for the problem area but also in an expression of interest and support at high levels. They also provided ideas for curriculum content and reference material which proved extremely helpful in the effort to effect a solution.

E. LITERATURE SEARCH AND EVALUATION

Stimulated by these interviews at the Navy headquarters level, investigation continued with the examination of the available literature in an attempt to collect that information which was particularly relevant to the problem area.

During this stage of the thesis effort consideration was given to alternative methods of effecting a solution to the problem. The information and topical areas to be addressed might have been added on to current courses, in the form of an expansion. However, this alternative did not really solve the problem. True, additional material would now be covered but:

1. It would be at the cost of decreased coverage of topics now explored;

2. There would still not be anything which would specifically tie together all the topics in a synthesized coverage of financial management in the public sector;

3. The andragogical problem previously presented of keeping adult students interested and involved would not be solved.

Realizing these factors, it was then decided that the optimal solution would be to present the material so gathered in the form of a capstone course to be required of all NPS financial management students. That this would be an optimal solution is explained by consideration of three points:

1. Topics and material not currently covered (as listed/ explained in section II - c) would be presented and explored in detail sufficient to meet the needs of the students-- prospective financial management graduates;

2. A brief review of those topics now presented elsewhere could be included in the course structure. This review would be done so as to synthesize the concepts and topics of public financial management into an integrated philosophy of resource management in the public sector; and

3. Structured in the form of a capstone course for the curriculum and dealing with topics and considerations directly applicable (in a general sense) to the environment into which the students are about to embark, the course would also utilize andragogical techniques mentioned earlier. With the employment of the variety of student experience, insight and knowledge in an extremely relevant field, participation

and interest in the curriculum during the last stage would be increased.

The Management Policy course MN 4105 helps draw together, in the student's mind, concepts and topics relevant to general management covered in specific detail earlier in the curriculum. This new course would represent a capstone course in the financial management program. It would better prepare the Naval officer-financial management graduate to take his place as an operational manager in the unique environment of the Federal Government/United States Navy.

With these thoughts in mind, the available material was culled and collated to meet the desired end.

F. REFORMULATION

Throughout the formulation of the course, discussions were held with the prospective instructors, Assistant Professor David C. Burns and Commander James F. Schumann, as well as with students regarding the proposed content. This phase of our investigation continued through the first half of the initial offering of the course with adjustments being made as required.

The biggest problem encountered centers around the seminar-type approach, which is the recommended method for presenting the course. It is felt that this approach allows for the maximum flow of relevant information to and among the students as well as the most extensive coverage of topical areas. Unfortunately student demand for the course (in the form of enrollment) has been much larger than anticipated

for the initial offering and the large class size has been a problem. To avoid this problem in the future it is recommended that additional class sessions be offered. The recommended class size is between ten and fifteen students.

Specific fine tuning has been made in the number of class sessions devoted to certain topics/articles; that is, time allowed has been increased or decreased as appropriate. These changes have been incorporated into the class session guides as they appear in Appendix A: "Guide For Class Sessions" (which is discussed in sub-section IV - B - 1).

IV. PRESENTATION OF FINDINGS

A. OVERVIEW

The vast amount of information gathered during the course of the investigation and the requirement that the student be able to assimilate this information within the available time constraints were both factors which convinced the writers that a formal course of instruction was warranted. Other factors considered are explained in Chapter III, Section E. Accordingly, it is recommended that the course as outlined in Appendix A, be made a requirement for those students who have selected the financial management option. It is further recommended that this course be included at the end of the Financial Management Curriculum in order to provide a capstone for that curriculum.

B. EXPLANATION OF ASSEMBLAGES

The essence of this thesis effort culminated with the assembling of three separate compilations of material.

1. Guide for Class Sessions

Appendix A, "Guide for Class Sessions" gives the Subject, Preparatory Assignments, Lesson Objectives and Additional References which apply to each session. This guide as presented could be used for the offering of such a course at any educational institution or incorporated into any curriculum with only minor modifications.

2. Students Manual

Appendix B is a compilation of the recommended reading assignments for this course which has been entitled "Students" Manual." Each of the articles included in this manual is specifically mentioned in a class session guide as a "preparatory assignment." In addition to this particular compilation, assignments are made from the following books and publications:

Fund Accounting (Ref. 4)

Governmental Accounting (Ref. 5)

Financial Management in the Navy (Ref. 6)

Programming Manual (Ref. 7)

Department of the Navy Audit Manual for Management (Ref. 8)

3. Instructor's Manual

An assemblage of articles and citations of texts, to which anyone instructing this course can refer was prepared. This document is designed to increase the instructor's knowledge

of specific topical areas. This document is entitled "Instructor's Manual," and it is not bound as an integral part of this thesis due to its lengthy nature. It was provided to and remains with the NPS Department of Operations Research and Administrative Sciences. Directions are made to these articles and books in the class session outline under the classification "Additional References."

C. COURSE EXPLANATION

The proposed course consists of four basic modules. Each of these modules can be adjusted as required to meet the background and needs of the particular class of students involved. These four modules are discussed individually below.

1. Module A: Fund Accounting

This module involves a presentation of the theories and principles of fund accounting (governmental accounting). These factors are not adequately covered in the present management curriculum. This material provides a broad educational base upon which is built the more detailed aspects of the course. This module addresses aspects of fund accounting applicable to all areas of the public sector, and is a fine introductory example of the differences between the private and public sectors. It is not intended that this module make a detailed examination of fund accounting debits and credits but, rather, that it present a broad conceptual treatment of the theories and principles of fund accounting. It contrasts fund accounting issues with those of profit seeking enterprises.

2. Module B: Federal Government Budget Process and Introduction To Navy Financial Management Systems

a. Part 1: Organization

The initial material presented in Module B is designed to acquaint the students with the primary factors involved in the formulation, submission and approval of the Federal Budget. It briefly addresses the roles played by the senior military personnel, the Service Secretary, the Office of the Secretary of Defense, the Office of Management and Budget, the President and the United States Congress. Included in this module is an examination of the United States Budget In Brief (Ref. 9). This document is published annually by the Office of Management and Budget. It presents the highlights of the budget in a non-technical way. It is intended that this examination of the latest United States Budget In Brief give the students an understanding of the current programs, priorities and uses of the Federal Budget. Particular emphasis should be placed on the presentation of topical material as regards current trends in national spending. Hopefully, this part of Module B will develop an appreciation for the broad scope and complexities of financial management in the Federal government.

b. Part 2: Resource Management Systems Theory

The second aspect of this module is designed to introduce the students to the development of financial management theory in DON. It also presents the applicable assignments of responsibility within that department. In addition it is

intended that the students become acquainted with the development of Resource Management Systems theory and applications within the Department of Defense.

3. Module C: Planning, Programming, Budgeting

This third module presents an overview of the PPBS system within the Department of the Navy. It examines in some detail the formulation, justification and execution of the PPBS cycle.

It is realized that some of the topical material in this module has been presented in considerable detail in previous courses. However, it is not intended that this module replot that very fertile ground but only that it provide a means of reviewing, reacquainting, reinforcing, and relating that material to the overall financial management process as it exists in the Department of the Navy.

4. Module D: Fund Control and Budget Execution (Navy)

The material presented in the course culminates in this module. In that this module presents material which is directly applicable to the follow-on duties of the officer--financial management graduate, it is desirable that outside speakers be utilized to present the current practices and procedures regarding financial management in the Navy. Relevant field trips should be employed to acquaint the students with actual practices.

This module further explores control and budget execution from the time Congress appropriates funds, down through the Navy headquarters and activity levels. In this respect it

continues on from where the material and literature presented in the PPBS module (and previous courses) leave off.

5. Case Study

A case study has been included to close out the course with the intention that it will allow the student an opportunity to draw together and demonstrate his understanding of the material presented. This case, entitled "Windward Naval Station," is divided into three sections which progressively become more complex. The fictitious case is centered around the problems of an operational commander who is faced with manpower and budget cuts. It should provide the students with some insight into the kinds of problems which face Navy financial managers. The in-class analysis of this case should also stimulate andragogically pertinent discussions.

6. Additional Comment

It is worthwhile at this point to re-emphasize that due to the ever changing nature of the subject material, personnel directly involved with financial management in DON must be utilized to the fullest extent possible in this course, to support, refine and most importantly keep current the material presented.

V. CONCLUSION

The present NPS Financial Management Curriculum covers the theories, principles and concepts of financial management. The coverage of these factors is general enough so that it applies broadly to financial management in both the public and private sectors. This coverage is done very effectively. It is one of the fundamental conclusions of this thesis, however, that though these principles and concepts generally apply to both sectors, the unique terminology employed and the specific applications of these factors in the public sector are significant enough to warrant a detailed examination by the students. Specific emphasis should be placed on DON applications of these principles.

The present curriculum gives consideration to andragogical problems with the presentation of a capstone course in Management Policy. No such consideration is given within the financial management area, however. Such consideration should be given by the presentation of a seminar-type course. Additionally, coverage of unique principles and concepts applicable to the public sector (Navy) which are not presently made, such as fund accounting, should be included.

Allowance for these aspects should be embodied in the form of a required capstone course for the NPS Financial Management Curriculum.

This thesis effort concludes with the recommendation for and presentation of a required course of instruction in the

financial management curriculum as a means of satisfying these requirements and thereby advancing a solution to the problem originally identified.

This capstone course not only explores previously uncovered aspects of public sector (Navy) financial management, ties together, reviews and highlights aspects now covered elsewhere but also embodies the andragogical considerations which will make the Naval officer--soon to be financial management graduate--more participative and interested in the course.

The recommended solution is presently under implementation at NPS in the form of elective course MN 4154: Financial Accounting in the Department of the Navy. The area covered by this course of instruction encompasses an ever changing environment and therefore it is highly desirable that this course be periodically reviewed and updated as required.

As a result of this thesis effort and the responsiveness of the NPS Management Curriculum administrators to the changing operational needs of the graduates, the financial management curriculum has been broadened by the adoption of this course. As a result of this broadening, the curriculum has become more valuable to the NPS financial management graduates.

APPENDIX A
GUIDE FOR CLASS SESSIONS

SESSION # 1

I. SUBJECT: Introduction to Course

II. PREPARATORY ASSIGNMENT:

(a) None

III. LESSON OBJECTIVES:

Give the students an overview of the course. Explain reading assignments, exams, etc. Distribute course materials. Indicate scheduled guest lectures and field trips.

IV. ADDITIONAL REFERENCES:

(a) None

I. SUBJECT:

Introduction to fund accounting

II. PREPARATORY ASSIGNMENT:

- (a) Kerrigan: Fund Accounting
Chp. 1. Scoping the Field
Chp. 2. Postulates and Principles
Chp. 3. Organization for Decision Making

III. LESSON OBJECTIVES:

Acquaint the students with the textbook technique.
Provide an overview of "fund accounting" as distinguished from conventional private industry accounting. Highlight the types of organizations for which fund accounting is the appropriate accounting technique.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Introduction to Fund Accounting

II. PREPARATORY ASSIGNMENT:

- (a) Kerrigan: Fund Accounting
 - Chp. 4. Cash Basis
 - Chp. 5. Accrual Basis (A)
 - Chp. 6. Accrual Basis (B)

III. LESSON OBJECTIVES:

Explain the fundamental concepts which differentiate cash basis and accrual accounting. Indicate those areas which are affected by these distinctions and the consequences thereof. Cite a few examples of the uses of fund accounting and effects of cash basis/accrual techniques.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Introduction to Fund Accounting

II. PREPARATORY ASSIGNMENT:

- (a) Kerrigan: Fund Accounting
 - Chp. 7. Appropriations
 - Chp. 8. Encumbrances
 - Chp. 9. Fund Resources
 - Chp. 10. Continuing Appropriations; Resume of Formal Controls

III. LESSON OBJECTIVES:

Acquaint the students with the concepts of budgets as control devices and explain the terminology peculiar to governmental accounting. Emphasize that unlike private enterprise, governmental budgets provide definite limitations of spending. Generally speaking, they are enacted in the form of laws.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Analysis of Basic Types of Funds

II. PREPARATORY ASSIGNMENT:

- (a) Mikesell and Hay: Governmental Accounting
Chp. 8. Trust and Agency Funds

III. LESSON OBJECTIVES:

Introduce the students to one of the specific classes of "fund accounts." Explain the mechanical operations of trust funds.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Analysis of Basic Types of Funds

II. PREPARATORY ASSIGNMENT:

- (a) Kerrigan: Fund Accounting
Chp. 16. Intra-governmental Revolving Fund
- (b) Wallace: "Working Capital Funds"

III. LESSON OBJECTIVES:

Introduce the students to a second specific type of "fund." Explain and discuss the theory; why such an entity can be effectively used in certain situations. Mention examples of working capital funds in DOD.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Analysis of Basic Types of Funds

II. PREPARATORY ASSIGNMENT:

- (a) Kerrigan: Fund Accounting
Chp. 23. An Overview
Chp. 24. Combined Financial Statements - All

III. LESSON OBJECTIVES:

Introduce the students to the concept of "General Fund."
Analyze the operations of this fund from the macro view-
point of the Federal Government.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Analysis of Basic Types of Funds

II. PREPARATORY ASSIGNMENT:

- (a) Kerrigan: Fund Accounting
 - Chp. 25. General Fund A
 - Chp. 26. General Fund B
 - Chp. 27. General Fund C

III. LESSON OBJECTIVES:

Analysis of the General Fund of the Federal Government using four financial summary statements:
Statement 4 "Changes in Undisbursed Balances,"
Statement 5 "Budget Receipts by Major Sources,"
Statement 6 "Changes in Undisbursed Balances, by Major Agencies,"
Statement 7 "Financial Position."
Provide a more detailed overview of the Federal Government's General Fund operations.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Analysis of Basic Types of Funds

II. PREPARATORY ASSIGNMENT:

- (a) Kerrigan: Fund Accounting
 - Chp. 28. Funds of a Federal Agency: Introduction
 - Chp. 29. O&M Funds of Federal Agency (A)
 - Chp. 30. O&M Funds of Federal Agency (B)

III. LESSON OBJECTIVES:

Illustrate accounting for expendable funds in the Federal Government by use of the example of the Department of the Army. The Department of the Army's practice is representative of the Departments of the Navy and Air Force, and in a broader context, of the other Federal Government agencies.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Analysis of Basic Types of Funds

II. PREPARATORY ASSIGNMENT:

(a) Fremgen: "Governmental Accounting"

III. LESSON OBJECTIVES:

Summarize the accounting problems, postulates and principles as they relate to the Federal Government and discuss in general the overall differences between fund accounting and standard private enterprise accrual bases accounting.

IV. ADDITIONAL REFERENCES:

(a) None

I. SUBJECT:

Organization of the Federal Government

II. PREPARATORY ASSIGNMENT:

- (a) Air Force Budget (Handout pages 33-39)
- (b) U. S. Budget in the Brief (1974)

III. LESSON OBJECTIVES:

Reacquaint the students with the macro-economic considerations of the Federal Budget. Discuss the roles of the various offices in the budget cycle. Develop "a feel" for the current uses and objectives of the Federal Government's annual budget. Discuss the current trends in governmental expenditures in terms of specific percentages allocated for departments/agencies.

IV. ADDITIONAL REFERENCES:

- (a) Singer: Public Micro-economics
Chp. 6. Efficiency and Public Goods

I. SUBJECT:

Organization of the Federal Government

II. PREPARATORY ASSIGNMENT:

- (a) Executive Office of the President (BOB):
"Preparation and Execution of the Federal Budget"
- (b) SECDEF News Release (4 Feb '74)

III. LESSON OBJECTIVES:

Discuss the actual budget process employed by the Federal Government. Continue discussions of trends. Highlight the various steps in the budget process and discuss the roles played by various organizational participants.

IV. ADDITIONAL REFERENCES:

- (a) Singer: Public Micro-economics
 - Chp. 7. Personal Income Taxes
 - Chp. 8. Corporate Income Taxes
 - Chp. 9. Sales and Excise Taxation
 - Chp. 10. Other Taxes

I. SUBJECT:

U. S. Navy Financial Management Structure (Organization)

II. PREPARATORY ASSIGNMENT:

- (a) Financial Management in the Navy
Chp. 1. Introduction

III. LESSON OBJECTIVES:

Introduce the students to the macro-economic roles of the Department of Defense. Analyze the development of financial management theory in the Department of the Navy. Specify some of the organizational methods and current programs used to promote fiscal efficiency.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

U. S. Navy Financial Management Organization

II. PREPARATORY ASSIGNMENT:

- (a) Financial Management in the Navy
Chp. 2. Organization for Financial Management-
Comptroller

III. LESSON OBJECTIVES:

Indicate the organizational assignments of responsibility within the Navy with regard to the affect on financial management. Indicate the assignments and responsibilities of the Comptroller of the Navy (ASN-FM). Explore the various interactions of the Comptroller within and without the Navy, and discuss potential problem areas.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

U. S. Navy Financial Management Organization

II. PREPARATORY ASSIGNMENT:

- (a) Financial Management in the Navy
Chp. 3. Resource Management Systems
- (b) Zock: "Resource Management Economic Analysis,
and Discounting in DOD"
- (c) Prime 69

III. LESSON OBJECTIVES:

Acquaint the students with the development of Resource Management Systems theory and applications in the Department of Defense. Include specific discussions of Project Prime. Explore the assigned RMS responsibilities of various comptrollers.

IV. ADDITIONAL REFERENCES:

- (a) BUPERS INSTRUCTION 7300.10

I. SUBJECT:

Review of First Half of Course Material

II. PREPARATORY ASSIGNMENT:

- (a) Formulate specific questions to be answered; identify points to be clarified prior to the exam.

III. LESSON OBJECTIVES:

Indicate the form of the midterm exam and afford the students a chance to review the first half material. Significant aspects of the material heretofore covered should be indicated.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Midterm Test

II. PREPARATORY ASSIGNMENT:

(a) Review the first half course material

III. LESSON OBJECTIVES:

This examination should be designed both as a learning tool, and to test the students' comprehension of the subjects previously covered.

IV. ADDITIONAL REFERENCES:

(a) None

I. SUBJECT:

Midterm Test Review

II. PREPARATORY ASSIGNMENT:

(a) None

III. LESSON OBJECTIVES:

Review the midterm examination, explaining desired answers. Provide the students with an opportunity to discuss specific aspects of the test and clarify in their minds the correct or desired answers. Use the discussions of the test material to reinforce the main points of the first half of the course.

IV. ADDITIONAL REFERENCES:

(a) None

I. SUBJECT:

Planning, Programming and Budgeting

II. PREPARATORY ASSIGNMENT:

(a) Program Budgeting

Chp. 1. Conceptual Framework

Chp. 2. Role of Cost-Utility Analysis

III. LESSON OBJECTIVES:

Present students with conceptual framework and theoretical arguments for the use of Program Budgeting. Discuss the role and applications of Cost-Utility analysis.

IV. ADDITIONAL REFERENCES:

(a) None

I. SUBJECT:

Planning, Programming, Budgeting

II. PREPARATORY ASSIGNMENT:

- (a) Programming Manual
 - Chp. 1
 - Chp. 4
 - Skim Chps. 2 & 3
- (b) SECDEF Memorandum (24 Jan 73)
- (c) SECDEF Memorandum (26 Mar 73)
- (d) PPB Cycle Handout

III. LESSON OBJECTIVES:

Present an overview of the Planning, Programming and Budgeting System of the Department of the Navy. Discuss generally the formulation, justification and execution of the PPBS budgeting cycle.

Acquaint the students with the basic Department of the Navy PPBS document. Discuss generally the timing of various phases of the budget cycle by reference to specific SECDEF directives for FY '74.

IV. ADDITIONAL REFERENCES:

- (a) Program Budgeting
 - Chp. 1. Conceptual Framework
 - Chp. 2. Role of Cost Utility Analysis

I. SUBJECT:

Planning, Programming, Budgeting

II. PREPARATORY ASSIGNMENT:

- (a) Kerrigan: Fund Accounting
Chp. 22. Program Budgeting

III. LESSON OBJECTIVES:

Discuss program budgeting in the civilian context. Contrast conventional line item budgeting with program budgeting. Discuss and identify problems of implementing program budgeting, such as loss of ability to aggregate purchases by the failure to consider acquisitions across program boundaries.

IV. ADDITIONAL REFERENCES:

- (a) Financial Managers Handbook: Module D

I. SUBJECT:

Naval PPB Structure and Process

II. PREPARATORY ASSIGNMENT:

- (a) Financial Management in the Navy
Chp. 4. Planning and Programming (revised)

III. LESSON OBJECTIVES:

Describe and discuss the Department of the Navy's role in the PPBS system as it currently exists in the Department of Defense.

IV. ADDITIONAL REFERENCES:

- (a) Supply Corps Newsletter, (Feb. '73)
"Department of the Navy and DOD PPBS"

I. SUBJECT:

Naval PPB Structure and Process

II. PREPARATORY ASSIGNMENT:

- (a) Financial Management in the Navy
Chp. 5. Budget Formulation

III. LESSON OBJECTIVES:

Identify the basic purposes that underlie the making of the Navy Budget and some of the factors that influence budget making, including an analysis of the interface between OMB and the Department of the Navy. Explore how government wide competition affects the budget preparation and Navy programs. Discuss terminology and structure of appropriations.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Naval PPB Structure and Process

II. PREPARATORY ASSIGNMENT:

- (a) Financial Management in the Navy
Chp. 6. Budget Formulation Cycle (revised)

III. LESSON OBJECTIVES:

Indicate important steps in budget formulation and discuss the procedure for updating objectives as well as the key personnel involved. Discuss the source of detailed guidance for formulating budget estimates and recognize where the preparation of individual budgets fits into the budget cycle. Analyze the budget review process, and Congressional interface.

IV. ADDITIONAL REFERENCES:

- (a) Financial Managers Handbook: Module E
- (b) POM-76, Navy Planning System Sheet

I. SUBJECT:

Navy PPB Structure and Process

II. PREPARATORY ASSIGNMENT:

(a) Financial Management in the Navy

Chp. 7. Headquarters and Activity Budget Formulation

III. LESSON OBJECTIVES:

Explore the responsibilities of the various financial managers at the Headquarters level. Indicate the need for cooperation among the responsible officials in the preparation of budget requests, and the purpose of OP-92.

Indicate the aims and characteristics of Navy Industrial Fund budgeting.

IV. ADDITIONAL REFERENCES:

(a) "Command Operating Budget" (ALM-61-3960-LC(A)*)

I. SUBJECT:

Fund Flow

II. PREPARATORY ASSIGNMENT:

- (a) Latest Appropriation Act (skim)
- (b) Latest Authorization Act (skim)

III. LESSON OBJECTIVES:

Provide the students with the opportunity to see the culmination of the entire Planning, Programming Process. Discuss the significance of specific phrases and terminology. Instructor should discuss some of the relevant aspects of the "Defense Appropriations" article (see additional references).

IV. ADDITIONAL REFERENCES:

- (a) "Defense Appropriations" (ALM 61-1958-LC(M))

I. SUBJECT:

Fund Control

II. PREPARATORY ASSIGNMENT:

(a) NCIS Handout

III. LESSON OBJECTIVES:

Introduce the students to the Navy Cost Information System (NCIS). Describe the purposes and capabilities of that system, and identify a few of its long range objectives. Discuss the sample input record.

IV. ADDITIONAL REFERENCES:

(a) Navy Cost Information System, Operator and Users Manual, NAVSO P-2412-Part 1

I. SUBJECT:

Fund Control

II. PREPARATORY ASSIGNMENT:

- (a) Antony: Planning and Control Systems: A Framework for Analysis
Chp. 1
Skim rest of book

III. LESSON OBJECTIVES:

Acquaint the students with the theory of "control" from the viewpoint of civilian industry.

Discuss the different aspects of "control" as proposed by Antony.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Fund Control

II. PREPARATORY ASSIGNMENT:

(a) Ulrey: "Cost/Output Data for Better Management"

III. LESSON OBJECTIVES:

Discuss the applicability of cost/output data analysis for better management control.

Discuss the difficulties of determining output measures in the public sector and contrast them to problems within the private sector.

*Discuss the history and development of legislative authority for the financial management structure within the Department of Defense.

IV. ADDITIONAL REFERENCES:

*(a) "Legislative Authority: (ALM-61-2892-LC)

I. SUBJECT:

Budget Execution: Headquarters Level

II. PREPARATORY ASSIGNMENT:

- (a) Financial Management in the Navy
Chp. 8. Budget Execution, pp. 94-105

III. LESSON OBJECTIVES:

Allow the students an opportunity to listen to the taped conversation* with Captain Lovell (OP-924) recorded on 17 January 1974. The tape highlights current operational financial management/budgetary considerations. This exposure should make the material covered in the next session more relevant.

IV. ADDITIONAL REFERENCES:

- (a) None

*17 January 1974 taped discussion entitled "Budget Execution" amongst Captain Lovell (OP-924), LCDR Baker (OP 924-C1) and the writers, recorded in Captain Lovell's office.

I. SUBJECT:

Budget Execution: Headquarters Level

II. PREPARATORY ASSIGNMENT:

(a) Financial Management in the Navy

Chp. 8, Budget Execution, pp. 94-105

Chp. 9, Financing

III. LESSON OBJECTIVES:

Discuss budget execution with respect to:
(a) Congressional limitations, (b) use of the financial plan, and (c) departmental procedures for control. Explore "reprogramming," supplemental appropriations, obligation and expenditure within Department of the Navy.

Identify Navy procedures for financing defense contractors and dependent schooling.

IV. ADDITIONAL REFERENCES:

(a) USMC HEADQTRS ORDER 7133.1C (23 March 72)

(b) DOD Instruction 7250.5 (21 May 70)

(c) DOD Instruction 7250.10 (1 April 71)

I. SUBJECT:

Budget Execution: Headquarters Level

II. PREPARATORY ASSIGNMENT:

(a) Financial Management in the Navy

Chp. 10. Accounting at Headquarters Level
Appendix B

III. LESSON OBJECTIVES:

Allow the students an opportunity to listen to the taped conversation* with Captain Lovell (OP-924) recorded on 17 January 1974. The tape highlights the organization of the CNO level of DON. It discusses the duties of OP-090, and the flow of funds within the Navy.

IV. ADDITIONAL REFERENCES:

(a) None

*17 January 1974 taped discussion entitled "Navy Organization" amongst Captain Lovell (OP-924) and the writers, recorded in Captain Lovell's office.

I. SUBJECT:

Budget Execution: Headquarters Level

II. PREPARATORY ASSIGNMENT:

- (a) Financial Management in the Navy
Chp. 10. Accounting at Headquarters Level
Appendix B

III. LESSON OBJECTIVES:

Discuss the applicability of the basic accounting principles applied in accordance with relevant laws by the Comptroller General of the U. S. Indicate the structure and characteristics of the Navy accounting system and recognize the appropriation and control procedures and their applicability to the various levels of command.

Discuss the role of the Navy Accounting Offices in relation to other Navy activities.

IV. ADDITIONAL REFERENCES:

- (a) Financial Managers Handbook: Module F

I. SUBJECT:

Operational Control (Navy)--Data

II. PREPARATORY ASSIGNMENT:

- (a) Financial Management in the Navy
Chp. 13. Progress and Statistical Reports
- (b) Programming Manual
Appendix H

III. LESSON OBJECTIVES:

Discuss the requirements for statistical and progress reports to properly manage the Navy's finances.

Explore and discuss the current techniques for the collection and presentation of financial data.

IV. ADDITIONAL REFERENCES:

- (a) None

I. SUBJECT:

Operational Control (Navy)--Auditing

II. PREPARATORY ASSIGNMENT:

- (a) Financial Management in the Navy
Chp. 14. Auditing in the Navy
- (b) Audit Manual for Management
Chps. 1-4
- (c) Naval Audit Service Handout

III. LESSON OBJECTIVES:

Acquaint the students with the requirements for, and methods used for auditing the expenditures of Navy funds. Indicate the appropriate management uses of and responses to audit reports.

Summarize the primary purposes and goals of the Naval Audit Service. Acquaint the students with the basic Navy documents regarding auditing.

IV. ADDITIONAL REFERENCES:

- (a) Department of the Navy, Audit Manual for Management, SECNAV Instruction 7510.7

I. SUBJECT:

Operational Control

II. PREPARATORY ASSIGNMENT:

(a) Programming Manual
Appendices F and G

III. LESSON OBJECTIVES:

Discuss anti-deficiency act problems, and procedures for reprogramming funds within specific dollar limits, within DON and DOD.

IV. ADDITIONAL REFERENCES:

(a) None

I. SUBJECT:

Activity Level Budget Execution (Navy Field Activity)

II. PREPARATORY ASSIGNMENT:

(a) Financial Management in the Navy

Chp. 8. Budget Execution pp. 106-110

Chp. 11. Accounting at Field Activities

III. LESSON OBJECTIVES:

Recognize the methods used for budget execution at the activity level including the responsibilities and controls placed on administrators, and requirements for and uses of internal review.

Recognize the policies and procedures for field activity fund administration, accounting and reporting. Discuss property and payroll accounting, cost accumulation and overhead distribution as a means of providing for prudent management. Discuss accounting for working capital and non-appropriated funds.

IV. ADDITIONAL REFERENCES:

(a) Financial Managers Handbook: Module C

I. SUBJECT:

Activity Level Budget Execution (Navy Field Activity)

II. PREPARATORY ASSIGNMENT:

- (a) Resource Managers Guide
- (b) Financial Management in the Navy
Chp. 12. Accounting and Reporting under
Project Prime

III. LESSON OBJECTIVES:

Introduce the students to the theory and concepts behind Project Prime. Specify the major characteristics of Prime's accounting system and how they are used to facilitate good financial management.

IV. ADDITIONAL REFERENCES:

- (a) Primer on Project Prime, DOD, Nov 66
- (b) Financial Managers Handbook: Module G

I. SUBJECT:

Activity Level Budget Execution (Navy Field Activity)

II. PREPARATORY ASSIGNMENT:

(a) Windward Naval Station Case (I & II)

III. LESSON OBJECTIVES:

Provide the students with an opportunity through case study method to apply the concepts and principles presented in the course.

IV. ADDITIONAL REFERENCES:

(a) None

I. SUBJECT:

Activity Level Budget Execution (Navy Field Activity)

II. PREPARATORY ASSIGNMENT:

(a) Windward Naval Station Case (III)

III. LESSON OBJECTIVES:

Same as previous session

IV. ADDITIONAL REFERENCES:

(a) None

I. SUBJECT:

Activity Level Budget Execution (Navy Working Capital Fund Activity)

II. PREPARATORY ASSIGNMENT:

(a) LCDR Fellows: "Navy Industrial Fund, a Tool for Efficiency and Economy."

III. LESSON OBJECTIVES:

Acquaint the students with the background for and historical development of the Navy Industrial Fund. Provide the students with an opportunity to see how the theory of working capital funds is applied in specific terms within the Navy.

IV. ADDITIONAL REFERENCES:

(a) DOD Instruction 7410.5 dated 9 March 72

I. SUBJECT:

Field Trip/Guest Lecturers*

II. PREPARATORY ASSIGNMENT:

(a) None

III. LESSON OBJECTIVES:

Allow the students an opportunity to discuss with persons currently involved with operational financial management, the topics and concepts covered in the course. These field trips and/or guest lecturers will be helpful as a means of supporting, refining and most importantly keeping the material covered current.

IV. ADDITIONAL REFERENCES:

(a) None

*To be inserted in the course structure when relevant lecturers and/or field trips are available.

I. SUBJECT:

Field Trip/Guest Lecturers

II. PREPARATORY ASSIGNMENT:

(a) None

III. LESSON OBJECTIVES:

Same as Session 42

IV. ADDITIONAL REFERENCES:

(a) None

I. SUBJECT:

Review of Course Material

II. PREPARATORY ASSIGNMENT:

- (a) Formulate specific questions to be answered;
identify points to be clarified prior to exam.

III. LESSON OBJECTIVES:

Indicate the form of the exam and afford the students a chance to review the course material. Significant aspects of the material previously covered should be indicated.

IV. ADDITIONAL REFERENCES:

- (a) None

APPENDIX B
STUDENTS MANUAL

Contents

Working Capital Funds
Governmental Accounting
Air Force Budget
U.S. Budget in the Brief*
Preparation and Execution of the Federal Budget
SECDEF News Release (4 Feb '74)
Resource Management Economic Analysis, and Discounting in DOD
Prime 69
SECDEF Memorandum (24 Jan 73)
SECDEF Memorandum (26 Mar 73)
PPB Cycle
Authorization Act-Public Law 93-155
Appropriation Act-Public Law 93-238
Discription of the Navy Cost Information System
Cost/Output Data for Better Management
Internal Auditing in the Department of the Navy
Resource Managers Guide*
Windward Naval Station
Navy Industrial Fund, a Tool for Efficiency and Economy*

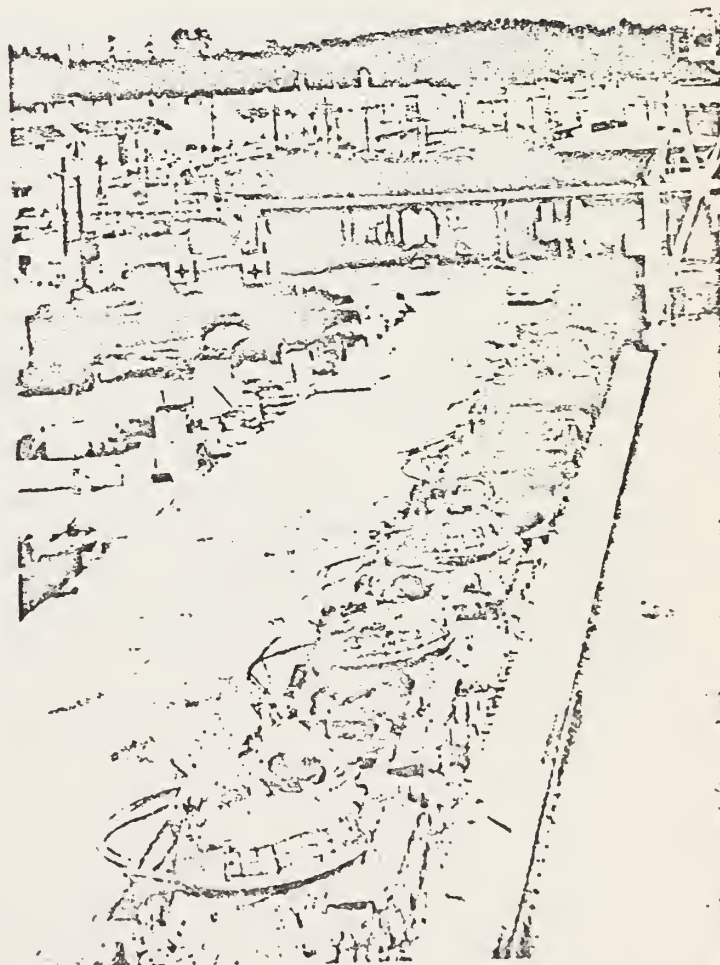
* For these publications, only the cover page and
procurement source have been included due to length.

WORKING CAPITAL FUNDS

by John F. Wallace

After World War II, the Army made extensive efforts to civilianize the administrative operations of the Military Establishment, especially in the area of financial management. The Hoover Commission recommended that certain business or commercial-type activities of the military departments be financed by means of revolving working capital funds. Their recommendations were enacted into law in 1949 as part of the National Security Act. This law authorizes the Secretary of Defense to establish working capital funds for the purpose of financing the procurement of certain supplies and holding them in inventory until they are sold to consumers and for financing the operations of industrial-type and commercial-type activities which provide common services to departments and agencies of the Department of Defense. Within the Army, the funds used for this purpose are designated as the Army Stock Fund and the Army Industrial Fund.

The basic concept of working capital funds is simple. A fund is established which is used to procure and to hold inventories or to defray the costs of producing goods or services. Inventory items or services are sold to customers of the fund. The proceeds of the sale are deposited in the working fund account and become available to buy more inventory or to finance services. This cycle continues for the life of the fund. From these characteristics, working capital funds are known as revolving funds.



MAY JUNE 1972

WHY USE WORKING CAPITAL FUNDS?

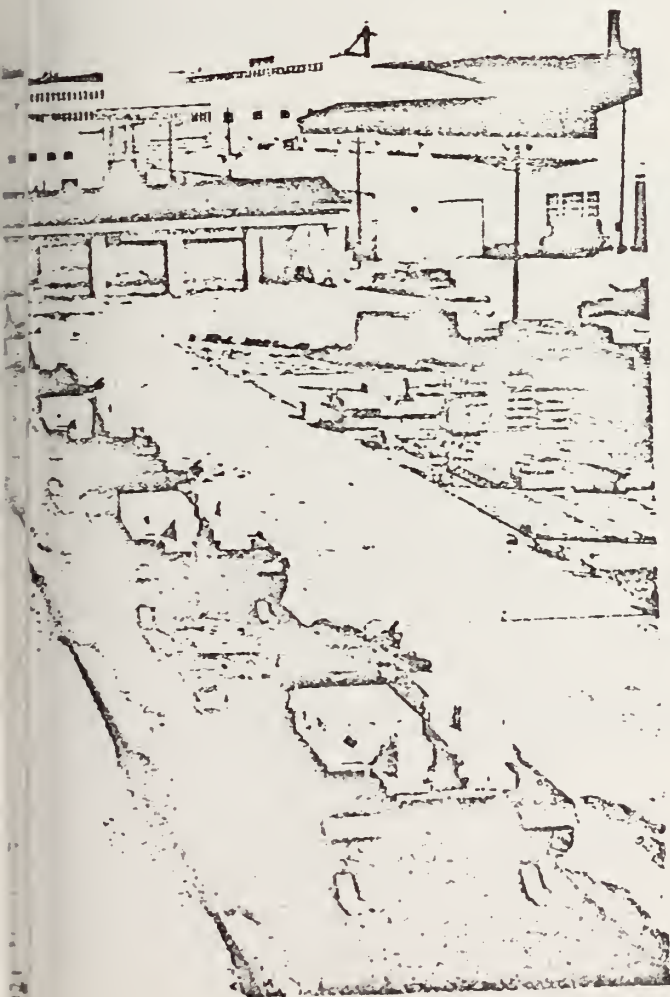
Ask the commander of an industrially funded installation and he will give you one list of reasons. Ask the logistics staff officer, or an accounting policy planner in the Pentagon, and each will probably provide entirely different reasons. Strangely enough, each will probably be correct, although in a somewhat limited way. An interesting characteristic of working capital funds is that people tend to see the advantages and disadvantages differently, depending upon the viewer's organizational level and functional perspective.

Another peculiar aspect of working capital funds is the variety of applications found today in the Department of Defense (DOD). Both the form and scope

of working capital fund applications vary markedly from service to service.

These phenomena of working capital funds, the diverse attitudes they arouse and their seemingly inconsistent use within DOD, may be traced, in part, to the fact that such funds actually serve two very different, although relatable, purposes. These purposes are product or service costing and financial control. Sometimes these funds are employed to serve one purpose, sometimes the other, and sometimes both.

Product or service costing is simply a technique for converting costs from one form to another so that they may be transferred to the ultimate program or function to be supported. For example, the Military Airlift



Army Industrial Fund—A consolidated working capital fund consisting of unexpended balances of cash on deposit in the Treasury or its equivalent; accounts receivable; stores of supplies, materials, and work in process; finished goods; and all other current and deferred assets pertaining to or acquired in the operations of Army installations or activities financed by the fund. The foregoing current assets are subject to all current and accrued liabilities in connection with or pertaining to such operations. The fund is applied to industrial and commercial-type activities of the Army that produce and furnish goods or render services to other activities on a reimbursable basis.

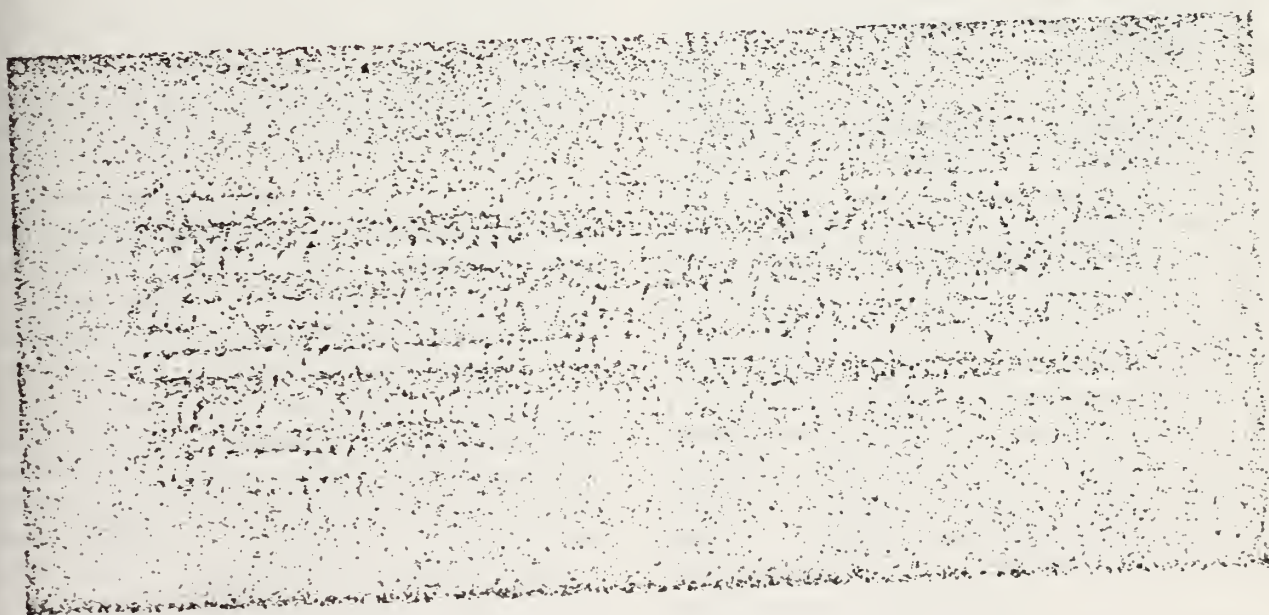
Army Stock Fund—A means for consolidated management, financing, control, and accounting for the procurement and inventories of those items of materials, supplies and equipment, the costs of which are chargeable, when issued, to a number of consuming activities.

Source: AR 310-25

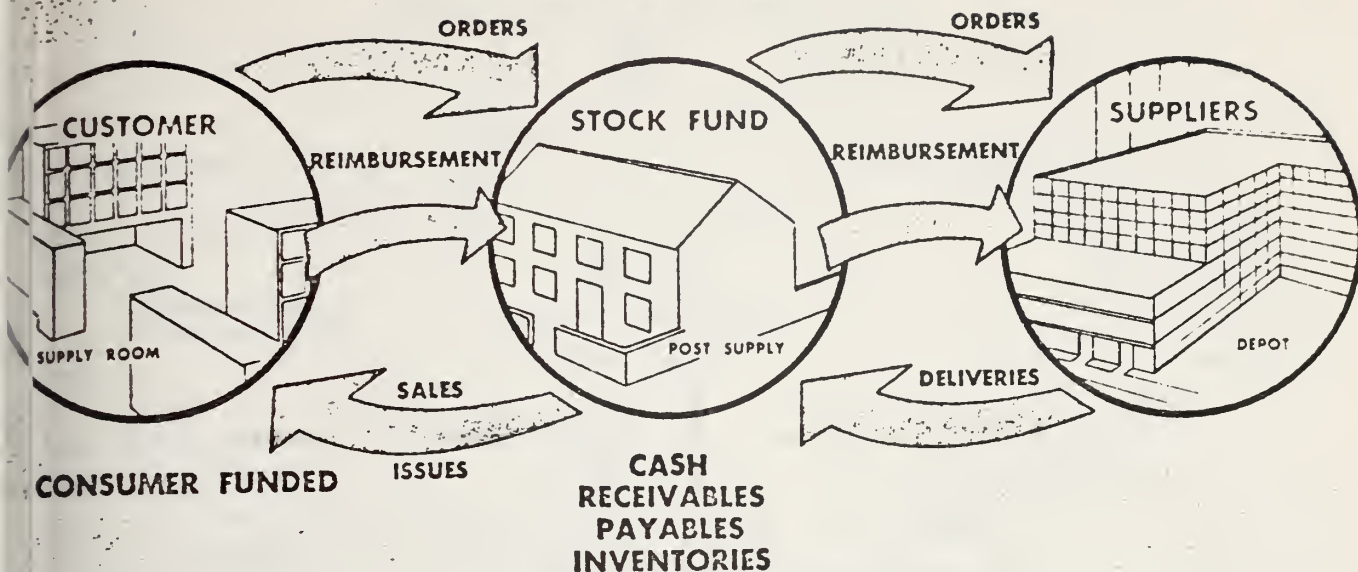
and incurs costs in the form of employee salaries, and other supplies, maintenance contracts, and related goods and services in creating the air support capability required by the Department of Defense. The Airlift Service Industrial Fund (a working capital fund) converts these costs to standard tariff rates for cargo and personnel. Air transportation may be "purchased" in manageable increments by various "customers," that is, those programs and activities within the Department of Defense requiring this service as an element of expense in mission accomplishment. Note the accompanying benefit of the product-services costing concept is the automatic separation of mission responsibilities into proper roles and the consequent elimination of much program management confusion. A good example is depot maintenance. Rebuild is usually an alternative to new procurement. Accordingly, the depot maintenance program manager is concerned with the rebuild cost per unit of, say, a combat vehicle. The maintenance industrial fund manager, on the other hand, is concerned with the proper mix of goods and services, including overhead, to rebuild the vehicles. Efficiency is thus facilitated as the industrial fund manager's primary attention can be focused upon minimizing costs, while the maintenance program manager concentrates upon selecting the number to be rebuilt, considering the cost-quantity variations and alternative courses of action.

Financial control, the other basis for adopting working capital funds, is best represented by the stock funds. Stock funds finance supply management operations for expense items. In the process, financial discipline is imposed upon supply management through a standardized and orderly control and reporting system. Hundreds of thousands of separate items, representing billions of dollars worth of inventory, are thus tied to supply policy so that supply operations and performance can be measured in financial terms and supply decisions can be implemented through financial controls. Note that the Department of Defense does not choose to fully utilize the product-service costing feature of working capital funds in this case. The customer buying a stock fund item pays a price that includes only certain selected costs involved in obtaining and handling the item in the DOD logistics system. Contrast this with the purchase of an item from Sears, Roebuck and Company in which all costs (warehousing, transportation, administration, etc.) as well as profits are included in the price to the customer.

A special form of revolving fund application is the "service center" concept. Just as industrial funds are used for a major support activity, the objective of the service center costing concept is to transfer the cost of a local support activity (for example, post maintenance, automatic data processing (ADP), communications and transportation facilities) to the mission



STOCK FUND



activities being supported. In theory, the full costs of millions are thus revealed for more accurate cost-effectiveness analysis and decision making.

To date, this application has had limited use within the Army. One example is the handling of ADP service at Army Materiel Command (AMC) depots. In effect, the various mission accounts "buy" ADP support from the central facility. Initially, all costs are incurred against the ADP functional account under base operations. In order for service center costing arrangements to be practical, relatively simple accounting techniques are necessary. Otherwise, the administrative burden may outweigh the benefits.

As was mentioned earlier that a variety of viewpoints surround working capital funds in the Department of Defense, due in part to the different purposes of these funds as seen against various backdrops of management objectives. However, there exist also certain myths and misconceptions regarding working capital funds and these, like most myths, have roots in partial fact.

Myth Number One: Industrially funded activities are more costly. "License to steal," is the phrase that sometimes accompanies this complaint. In part, the allegation appears to be supported by the fact that industrially funded installations frequently enjoy a higher standard of living than others. That is, the backlog of essential maintenance and repair is frequently less at industrially funded installations than at installations depending upon their own appropriated funds for facilities maintenance. Deeper reflection will reveal, however, that essential repair is cost-effective by definition and its deferral is inefficient, although

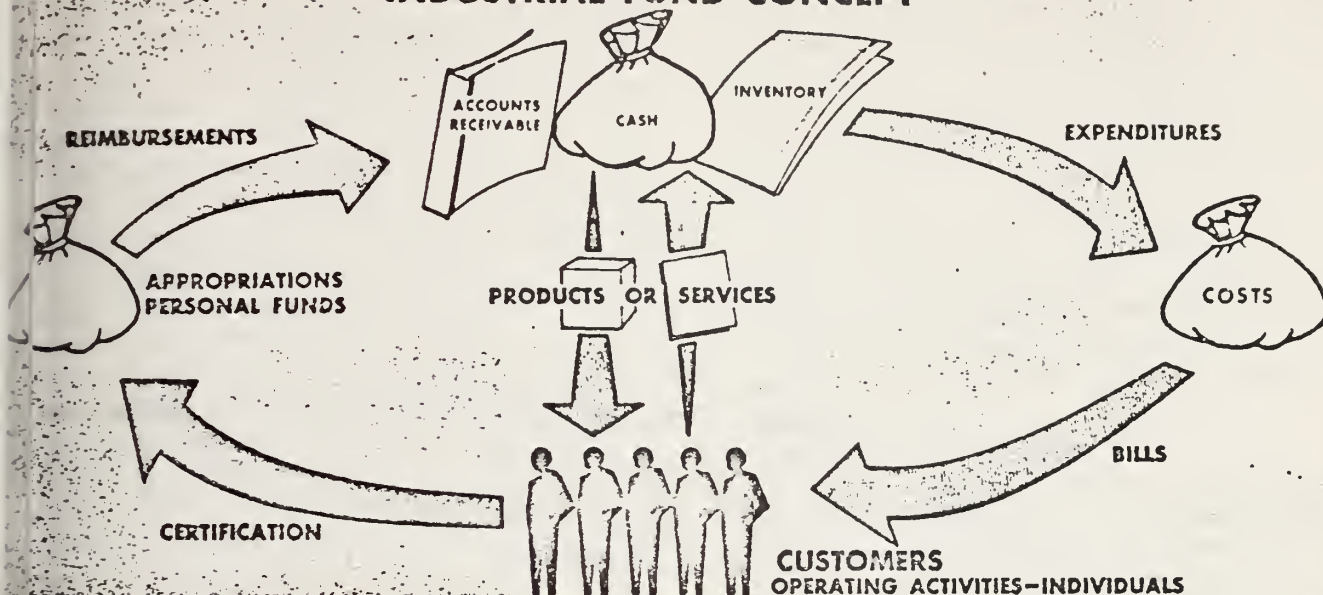
the additional cost may not reveal itself in the same appropriation or time-frame. For example, deferred minor repair may result in major construction that might have been avoided if the installation had been encumbered with no greater restriction than demonstrating that the maintenance project was cost-effective. In authorizing working capital funds, the Congress was recognizing the wisdom of providing tools so that the rigid demarcations between appropriations and fiscal years will not always impede efficient management.

Another side of this myth is the legitimate complaint of customers that reductions in workloads are often offset by increases in the unit cost of the product or service, thus preventing the customer from realizing dollar savings. This can occur most readily where there is improper management of capacity that is excess to current workload requirements. In theory, the burden of maintaining such capacity should be charged, not to customers through the product or service cost, but to appropriated funds as a separate activity similar to production base support and industrial preparedness. There are really two elements to this problem: accurately measuring excess capacity and defending budgeted amounts for identified unutilized or underutilized facilities and people.

Myth Number Two: Working capital funds have little application outside of the logistics area. It is true that the initial applications of these concepts have been in logistics-related areas. Stock funds are by definition a tool of supply management. The revolving fund concept, however, is theoretically applicable to any activity.

(Continued on page 38)

INDUSTRIAL FUND CONCEPT



where the output is not an end in itself but, rather, represents a major mission. The controlling criterion is whether or not that output can be converted to a purchaseable input (element of expense) of the supported activity. One way to establish a classification of potential candidates for working capital funding is to divide programs of the Department of Defense into two categories: independently programed activities and dependent activities. The former would include strategic and general purpose forces, certain strategic communications and intelligence activities, Reserve component activities, and most research and development projects. The latter would comprise a set of activities that exist solely to provide support for the independent programs. Those few activities whose output is not convertible to measurement in terms that correspond to the output of the independent programs might eliminate consideration such activities as service academies, ROTC, industrial preparedness, and most departmental headquarters activities. All remaining activities would be oriented, at least theoretically, potential candidates for industrial management under the working capital fund concepts of product or service cost accounting and output control. As a final test, however, it is useful to look to the private sector of our economy to determine whether similar activities are feasible operations under the disciplines of commercial enterprise. A good case in point is the current study by the Army Materiel Command to determine the suitability of industrially funding the operation of central supply depots. Looking at the private business community it is apparent that the functions of receiving, storing, and issuing can be and

are readily treated as commercial services, available for a price, that a potential buyer can weigh in his mix of cost alternatives in conducting his business.

References to the private business sector can be misleading in connection with working capital funds, however, and often give rise to our next myth.

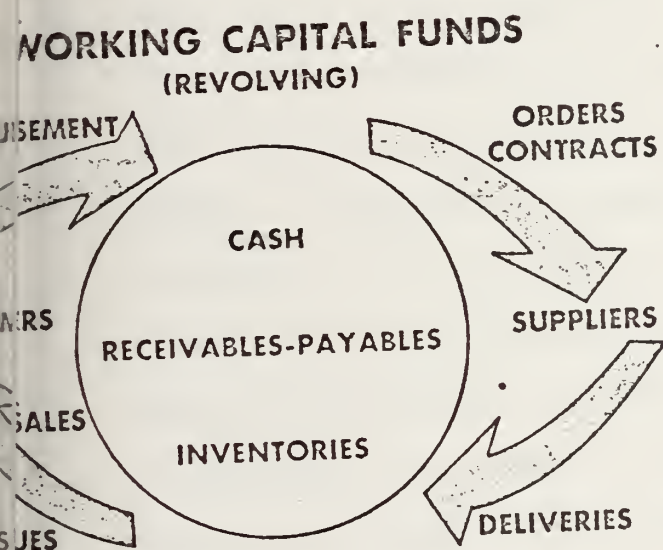
Myth Number Three: The absence of a "profit motive" precludes obtaining cost control benefits under industrial funds. This myth presumes that in a profit-seeking business the pressure to maximize profits will automatically result in the reduction of costs to a minimum. This is, of course, a naive view of business, since maximum profits often entail an expansion of costs. Furthermore, the toughest part of finding the most efficient mix of inputs for various outputs lies in accurately measuring costs and predicting benefits, a difficulty that is neither increased nor lessened by the presence of a profit motive. The grain of truth behind this myth, however, is that some basis is needed to evaluate the success or failure of an activity that is managed on a revolving fund basis. In other words, a formalized review process must exist to insure that the working capital fund operation is properly conducted and controlled. This review requires two determinations.

First, is the workload forecast reasonable? This can be ascertained at each review level only to the extent that customer programs come under the cognizance of the reviewing echelon. In the case of an industrially funded activity whose customers are not primarily within the same defense component, the Office of the Secretary of Defense must make the final decision on the accuracy of the workload forecast.

second, are the cost computations equitable? The answer to this question lies in the development and application of appropriate standards. In the cases of direct and indirect production costs considerable progress has been made. For general and administrative overhead (base operations), cost standards development and refinement is a comparatively recent effort.

Myth Number Four: Stock funds can create supply problems. One of the principal characteristics of the stock fund system is that it is designed to signal supply problems and put a price tag on mistakes. If a materiel manager heeds the signals, he often can adjust his operations so as to prevent supply problems.

It is not surprising, however, that there is occasional failure to differentiate between the problem and the symptom which reveals it. For example, a frequently heard complaint is that situations arise in which the customer has consumer funds to purchase supplies, but the local supply activity cannot provide the items needed owing to a shortage of stock funds." On the surface,



that might appear to be a problem created by the stock fund system. In almost every case, however, it is found that available stock funds had been spent to place unneeded items in the inventory. Without the stock fund the wrong items would simply have been bought using the consumer's funds in the first place. No system can guarantee perfect forecasting. However, the stock fund system creates the kind of financial inventory control environment through which good management can be exercised and poor management can be identified.

Materiel returns to the stock fund provide another frequent source of misunderstanding. Whenever a customer is denied full credit for perfectly good items, he is inclined to view the stock funded supply system as a skinflint operation designed to exploit the captive cus-

tomers. Most complaints in this regard arise from a tendency to inquire into the real problem. Why did the consumer buy an unneeded item in the first place? The stock fund system provides a standardized basis for permitting worldwide redistribution of materiel on an economic basis. There are times, however, when a loss must be taken somewhere in the Army-wide system as a result of a long supply position. Such losses, even when they do not represent poor management but only an inescapable part of the cost of operations, should be reflected against the activity whose operation was responsible. Materiel credit policy is so designed. To conceal such costs by burying them in the stock fund would only distort the true cost of activities and operations and encourage, rather than discourage, poor materiel management.

Where do we go from here?

Defense management is still in the learning stage of obtaining the maximum benefit from these tools. The use of working capital funds has grown and evolved steadily since they were first recommended by the Hoover Commission and their use authorized by Public Law 216 in 1949. However, this evolution must occur in pace with the successive stages of understanding and development of other related management concepts such as performance budgeting, output measuring, and program structuring. At present, it is considered more prudent to concentrate upon improving the management and correcting the deficiencies of current working capital fund applications than to seek an expansion of their use. The Comptroller of the Army, in collaboration with Headquarters, AMC, has been conducting a study of industrial funds and their management. It is not surprising that one of the study's most difficult areas has been to come to grips with the unutilized capacity problem discussed earlier. A major outgrowth of the study thus far has been the publication of Chief of Staff Regulation 37-11, 28 June 1971, assigning definitive Headquarters, Department of the Army staff responsibilities with respect to Army industrial funds.

Another development is the tasking of the Logistics Management Institute to study the use of stock funds in financing Army inventory and to make appropriate recommendations.

The collective effect of these and other studies concerning working capital funds is the very healthy indication that the evolution is continuing.

LOG

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GOVERNMENTAL ACCOUNTING

J. M. Fremgen

Accounting for the financial dimensions of the operations of a governmental activity is not greatly different from the accounting for a business enterprise. Governments acquire assets, incur liabilities, earn revenues, incur expenses, collect cash, and pay bills just as business firms do. For a stated fiscal period, a governmental unit can and typically does prepare a statement of operations similar to an income statement; and, as of the end of that period, it prepares a balance sheet. There are, of course, differences in the structure and nature of a governmental unit as compared with a business firm. These differences are, quite properly, reflected in the government's accounting records and reports. A government, for example, is not constituted with the objective of making a profit on its financial transactions. Hence, its statement of operations is more concerned with the financial aspects of various governmental operations than with a final result called income. Further, a government is not owned by an individual or a small group of individuals and operated in their best interests. It is representative of all persons within its jurisdiction, and it is operated to conform to the legal requirements and restrictions imposed upon it by its constituency through their elected representatives. (The only significant distinction here in a monarchy or dictatorship is the number of persons having a voice in the determination of these requirements and restrictions.) Whatever its objectives, however, the government must operate in the economy in which it finds itself; and it must operate in accordance with the rules of that

economy. That is, it must enter into financial transactions in order to pursue its objectives.

PECULIARITIES OF GOVERNMENTAL OPERATION

There are certain features of a government which are significantly different from those of a business enterprise. Not surprisingly, these features influence the accounting system. The principal source of revenue in most governments, for example, is taxation. Within reasonable limits, tax revenues may be assessed without regard to the services rendered by the government. Thus, while the revenues of a businessman are directly related to his distribution of goods and services to customers, those of a government are not necessarily proportional to government services. Partly because of its ability to finance its operations by taxation and partly because of the generally recognized need for government, a governmental unit usually continues in existence despite unsatisfactory financial operations. It is possible, thus, for a government to incur liabilities in excess of its assets without becoming insolvent. (With respect to the United States government, this point should not be exaggerated. The Federal government's accounting system grossly understates the nation's assets.) Finally, a government representative of the will of the governed is more narrowly constrained in its operations than is the typical business firm. For example, it is legal for the Prudential Insurance Company to sell retirement annuities to interested persons simply by virtue of the fact that it is an insurance company. It was not legal for the United States

government to offer retirement annuities, however, until the Congress enacted and the President approved the Federal Insurance Contributions Act.

IMPORTANCE OF THE GOVERNMENTAL BUDGET

A budget is simply a plan of financial operations for an entity during some specific future period of time. Most entities have budgets of varying degrees of formality -- including business firms, governmental units, nonprofit organizations, and many households. In the typical business enterprise, the budget indicates planned sales, expenses, asset acquisitions, cash collections and disbursements, and capital procurement for a particular period of time. The operating budget for a particular division ordinarily estimates revenues and operating expenses consistent with the division's forecasted sales volume. If actual sales volume proves greater than forecasted, however, the division manager is not prohibited from accepting the additional orders or from incurring the additional expenses necessary to fill those orders. The analogy here does not carry over to a governmental unit, however. If the Secretary of Defense finds that the spending authority given him by Congress in the annual budget is inadequate to meet the operational demands placed upon his department, he cannot legally spend more. He must ask Congress to amend the budget. Should Congress decline to do so, he would have no alternative but to operate as best he could under the inadequate budget limitation. To spend more than the budget allowed him would be illegal, punishable by fine and/or imprisonment.

Nonprofit organizations such as schools and fraternal organizations tend to regard their budgets more nearly like those of government units than those of business firms. For example, the chairman of the English Department at a private university is given an operating budget for the ensuing academic year. It permits him to hire one additional professor and to increase his consumption of paper and supplies by 10 percent. The demand for his courses is such that he needs three additional professors to avoid unduly overloading his present faculty, and he feels that conservative usage of supplies would require a 25 percent increase in his budget for them. Nevertheless, he is constrained by the budget. Should he recruit the two additional but unauthorized faculty members he feels he needs, the university will not add them to the payroll. When he submitted a requisition for the purchase of supplies in excess of the amount allowed him in the budget, the Purchasing Department would refuse to honor his request.

Business firms as well as governments and nonprofit institutions compare their actual operations with the budget. The timing and the significance of their respective comparisons are different, however. The business firm compares actual performance with the budget after the fact. It seeks to identify deviations from the plan and the reasons therefor. The governmental unit, on the other hand, conducts its actual operations in such a way as to ensure compliance with the budget. In doing so, it seeks to avoid deviations from the plan. Not surprisingly, then, the accounting system of a governmental activity formally includes

these all-important budget constraints. The budget is recorded directly in the accounts. Budgeted financial data and actual data stand side by side in the accounts, where their relationship can be seen directly.

BUDGETARY ACCOUNTS

Recording the budget in the accounting system means that the government's ledger includes accounts for budget data as well as actual data. Budget data are accumulated in budgetary accounts. Actual data are accumulated in proprietary accounts. The latter are equivalent to the familiar accounts in the ledger of a business enterprise.

A simple and broadly summarized recording of the Federal budget for a hypothetical fiscal year is shown below in the familiar form of a journal entry. Federal revenues from all sources are estimated at \$205 billion and spending for all purposes is approved in the amount of \$207 billion. Thus, a deficit (excess of expenditures over revenues) in the amount of \$2 billion is anticipated. The entry for this budget is as follows:

Debit: Estimated Revenue	205,000,000,000	
Debit: Planned Deficit	2,000,000,000	
Credit: Appropriations		207,000,000,000

All three of the accounts debited or credited here are budgetary accounts. The Estimated Revenue account reflects what the Department of Treasury has estimated the government will collect in taxes and fees during the fiscal year. This estimate is based upon existing or planned tax rates and the best available forecast of economic activity for the period. Should the level of economic activity change materially from that forecasted, the

actual revenue collected is likely to be significantly different from the estimate. In a period of recession, for example, the general decline in income results in a reduction in revenue from income taxes. Conversely, if incomes are higher than expected, actual revenue may exceed the estimate. In other words, the budgeted revenue is neither a required minimum nor a legal maximum. It is simply the best possible estimate based upon economic forecasts. .

The Appropriations account reflects the level of government spending approved by the Congress and the President. While there is no legal requirement that the entire amount appropriated be spent, no more than that amount may be spent. It is illegal to spend in excess of appropriations. An appropriation is the legal authority for a governmental unit to spend Federal funds for specified purposes. It is an act of Congress, a Federal statute when signed by the President. Appropriated funds may be spent for the acquisition of assets (e.g. buildings, ships, office equipment, etc.) or for current expenses (e.g. salaries, power and light, office supplies, etc.). Each time an expenditure is made, the remaining appropriated funds are reduced by that amount. At the end of the fiscal year, any unexpended appropriated funds are cancelled (unless the appropriation law provided that they remain available for longer than one year). As a final caution, it should be noted carefully that appropriations or "appropriated funds" are not cash. Rather, they are legal authorizations to incur obligations in the name of the Federal government, which obligations ultimately will be paid in cash.

It is interesting to note that estimated revenues are recorded by a debit, whereas actual revenues will be recorded by credits. Similarly, appropriations are recorded by a credit and actual expenditures will be entered as debits. This reversal of the usual practice for debits and credits in the case of budgetary accounts facilitates distinguishing such accounts from the proprietary accounts in which actual transactions will be recorded. The Planned Deficit account is used simply to balance the recording of the budget and to indicate the expectation that the planned excess of spending over revenue will have to be financed by further government borrowing.

While the entry above is fairly descriptive of the way in which a municipal government would record its annual budget, it is not an accurate representation of budgetary accounting in the Federal government. The Federal government does not prepare a formal budgetary account for total estimated revenue or for the overall planned deficit or surplus, although each of these is carefully planned in advance. The Federal government's budgetary accounts focus chiefly on the appropriations or planned expenditures. There are good reasons for this focus. The management and control of government spending is enormously complex. Appropriations are subclassified in two important ways. Each appropriation indicates (1) the specific department or agency authorized to spend funds and (2) the specific object for which the spending is approved. For example, an appropriation might indicate that it authorizes (1) the Department of Defense to spend a certain amount for (2) military pay. No other

department or agency could expend any portion of this appropriation, and the Department of Defense could spend it only for military pay, not military travel or civilian pay or anything else. An executive of the Federal government does not have the authority to divert funds appropriated for one purpose (e.g. equipment) to another purpose (e.g. personnel), even though such diversion might reasonably be adjudged consistent with the objective of efficient government management. (The Resource Management System in the Department of Defense does allow managers limited authority to spend appropriated funds for whatever they need, without regard to an earlier specific spending plan.)

ILLUSTRATION OF APPROPRIATION ACCOUNTING

In view of the close control over the administration and spending of appropriated funds, it is not surprising that the accounting system of the Federal government includes detailed budgetary accounts for appropriations at the various levels of management in the departments and agencies charged with the responsibility of spending the appropriated funds in compliance with the law. The accounting procedures for one appropriation in a hypothetical government agency are illustrated below. It should be noted that most of the accounting entries in this illustration deal only with budgetary accounts. For the sake of completeness, however, the recording of the actual spending transactions in proprietary accounts is included at the end of the illustration.

The Department of Natural Resources has three chief operating divisions, Conservation, Reclamation, and Statistics. Each division has

several branches throughout the country. The Department owns a variety of equipment at various locations. For the fiscal year 19xx, Congress appropriates \$8,000,000 for the repair and maintenance of this equipment. This money may be spent only for the designated purpose and only during fiscal year 19xx. All Federal appropriations are recorded in the books of the Division of Central Accounts of the Department of Treasury. The entry to record this appropriation would be as follows:

Debit: Available Funds	8,000,000	
Credit: Appropriations		8,000,000

The appropriations account has already been explained. The Available Funds account is also a budgetary account. It is not an asset, and it most definitely is not cash. Rather, it indicates that the Treasury stands ready to provide \$8 million for the equipment repair and maintenance bills of the Department of Natural Resources. Its basic function is to balance the budgetary accounts in the ledger of the Division of Central Accounts.

The Department of Natural Resources cannot spend the entire \$8 million appropriation at once, however. It must estimate its repair and maintenance costs on a quarterly basis and then request that the appropriation be released to it on that basis. The release of appropriations to agencies is administered by the Bureau of the Budget in the form of apportionments; so much appropriated money is released each quarter. The purpose of the apportionment procedure is to prevent agencies from overspending early in the fiscal year and to avoid the need for subsequent appropriations by Congress to cover deficiencies. If the \$8 million appropriation for

repair and maintenance in this illustration is apportioned in equal amounts over the four quarters, the Department of Natural Resources would make the following entry to budgetary accounts when it received its first quarter's apportionment:

Debit: Available Funds	2,000,000	
Credit: Unallotted Appropriations		2,000,000

The Available Funds account serves the same function as the same account in the books of the Division of Central Accounts (see above). The Unallotted Appropriations account indicates that the Department has spending authority not yet allotted to its three divisions.

Part of this appropriation would be allotted to each of the three operating divisions. If the entire \$2 million available for the first quarter were allotted at once, the entry in budgetary accounts on the books of the Department would be as follows:

Debit: Unallotted Appropriations	2,000,000	
Credit: Unobligated Allotments		2,000,000

This entry simply indicates the change in the level of Department responsibility at which the appropriated funds are now controlled. Each division would record its share of the allotted funds and then further distribute them among its branch offices. Each division and each branch thereof would maintain its own budgetary accounts for available funds and allotments.

When a business firm places an order for goods or enters into a contract for services, it makes no entry in its accounting system until the goods are delivered or the services are performed. When a government

agency orders goods or contracts for services, however, it records the fact that it has obligated, or earmarked a portion of the funds appropriated for it. This entry still deals with budgetary accounts only. Its purpose is to show that the spending authority for the agency has been partially committed and, hence, that the remaining balance available for spending is reduced. Suppose, for example, that the Los Angeles office of the Division of Statistics of the Department of Natural Resources contracts with a local firm to perform routine maintenance work on its office equipment during the first quarter at a contract price of \$6,000. Even before any work is done and any bills received, this contract constitutes an obligation of appropriated funds for a specified purpose and prevents further obligation by the Department of more than \$1,994,000 in the first quarter. The entry to record this obligation on the Department's books is as follows:

Debit: Unobligated Allotments	6,000	
Credit: Unliquidated Obligations		6,000

In other words, part of the total allotment to the Los Angeles Office has been obligated for a particular objective, but the obligation has not yet been fulfilled (liquidated) by performance of the contract services.

When repair bills are received in the Los Angeles office from the contractor for services accepted as satisfactory, the obligation has been liquidated and an expenditure of appropriated funds has occurred. This is recorded in budgetary accounts as follows:

Debit: Unliquidated Obligations	6,000	
Credit: Expended Appropriations		6,000

Debit: Vouchers Payable	6,000	
Credit: Available Funds		6,000

When the Division of Central Accounts in the Department of Treasury is advised that the disbursing officer has paid the contractor by check for this voucher and that the check has cleared, the following entry is made on the Division's books:

Debit: Expenditures	6,000	
Credit: Cash		6,000

Both of these are proprietary accounts. The Expenditures account is used to summarize all government spending during the year. The asset and expense accounts detailing the specific goods and services obtained for the money expended appear only in the books of the departments and agencies concerned.

The foregoing illustration is necessarily simplified to a great extent. The complicated structure of the Federal government coupled with the extensive legal restrictions imposed by Congress on government spending authority must be reflected in the government's accounting system. Most of the detail is eliminated in the illustration above, but the basic concepts and procedures shown are valid.

FUND ACCOUNTING

Another distinctive feature of governmental accounting will be discussed only briefly here. For purposes of financial management and accounting, the resources and activities of most governmental units are administered and accounted for in several subentities called funds. In

this context, a fund is a collection of assets and corresponding claims on assets which are used for some specified purpose in accordance with law and which are treated as a separate accounting entity. Each fund, therefore, is accounted for in a self-balancing (assets = liabilities + owners' equity) set of accounts.

In the Federal government, there are three important types of funds. By far the largest of these subentities is the General Fund. Almost all of the ordinary operations of the government are financed through and accounted for within the General Fund. Payment of salaries for military and civilian employees in all departments and agencies is a General Fund transaction. Purchase of materials, construction of a building, sale of government bonds, and expenditures for foreign aid are all General Fund transactions.

The second important type of fund in the Federal government is the working capital fund. A working capital fund is a commercial-type activity that sells its services to other governmental agencies. The appropriated monies with which customer agencies pay for these services are accounted for in the General Fund. The receipt of these monies by the commercial activity and subsequent spending of them for the operation thereof are working capital fund transactions. The Navy Industrial Fund is an example of a working capital fund. Its activities include shipyards, printing plants, MSTs, and other business-type operations. The Government Printing Office and the General Services Administration are also examples of working capital funds.

The third important type of fund is the trust fund. Trust funds include monies which are held in trust by the government for the benefit of specified persons. The most familiar examples are the Social Security Trust Fund and the Civil Service Retirement Fund. Because of their nature, trust funds have relatively few types of transactions. The principal ones are receipts of cash, investments of cash in government bonds, and disbursements of cash to beneficiaries.

Many other types of funds would be found in the structure of a large municipal government. They present many interesting problems of management and accounting, but these are beyond the scope of the present discussion. Any fund, regardless of its purpose, is a separate accounting entity with its own accounting records. As these are self-balancing records, financial statements can be and typically are prepared for individual funds. The underlying reason for the establishment of a separate fund is either administrative convenience (as in the case of a working capital fund) or compliance with legal requirements (as in the case of the Social Security Trust Fund).

PLANNING-PROGRAMMING-BUDGETING AND RESOURCE MANAGEMENT SYSTEMS

In 1961, the Department of Defense inaugurated a new budgetary system that came to be known as the Planning-Programming-Budgeting System (PPBS). Basically, PPBS was a new approach to internal planning in the Department. The planning phase entails definition of long-range strategic objectives, such as the capability of nuclear retaliation in the event of enemy attack. The programming phase involves the

identification of alternative systems or programs for achieving these objectives and the selection of one or more programs for implementation. For example, our nuclear capability is largely implemented by means of the Polaris/Poseidon missile program, the Minuteman missile system, and the Strategic Air Command. The budgeting phase is then the annual estimation of funds required to operate ongoing and new programs. PPBS has now been put into effect in almost all Federal agencies and, incidentally, in many state and local governmental units. What PPBS really seeks to do is to focus attention on the purpose for which government funds will be spent (e.g., nuclear retaliatory forces, water pollution control, urban renewal, education, etc.) instead of only on the items for which they will be spent (e.g., salaries, travel, supplies, land, etc.). However, PPBS is still implemented only within administrative agencies. Congressional appropriation bills continue to specify spending authority in terms of items rather than programs. Congress, of course, does study and evaluate proposed programs in the process of developing and approving appropriations.

In 1968, the Department of Defense instituted a new Resource Management System (RMS). RMS incorporates PPBS and attempts to go further by extending the basic philosophy of that system to operating activities and by incorporating it in the actual accounting system. Thus, RMS is more significant for governmental accounting than was PPBS. RMS is intended to make the commanding officer of a military installation responsible for the effective performance of his assigned duties within

the broad constraint of a budget allowance, but not to constrain him narrowly to the specific items for which he must spend that allotment. Thus, if he had excess funds originally planned for maintenance available and a shortage of funds for fuel, he could spend the former to compensate for the deficiency in the latter. Originally, RMS was also to allow the commanding officer authority to substitute military billets for civilian, and vice-versa; but this authority has not yet been granted and many question that it ever will be. Nevertheless, Congress continues to appropriate military funds for spending items. Thus, higher levels of military management (e.g., the Navy bureau/systems command level) must reconcile the free spending authority of activities with appropriation categories. As a practical matter, this requirement has resulted in a limitation on the spending discretion actually allowed unit commanders. As more experience with the system is obtained, it is possible that Congress will relax its own appropriations restrictions in details, not in total amount.

Another important accounting implication of RMS is an emphasis on accrual accounting. Prior to its inauguration, most governmental activities accounted for their appropriated funds essentially on the cash basis. For example, no attempt was made in operating units to distinguish between spending for materials and supplies purchased and consumed during the fiscal year and spending for items purchased and still in inventory at the end of the year. This distinction was made in working capital fund activities, however, such as the Navy Stock Fund. Obviously, ignoring

inventories and other accruals could lead to serious misallocations of resources in subsequent years; and RMS is designed to prevent such errors.

While RMS has made changes in the details of accounting within operating units and at higher levels of military management, it has not changed the basic structure of appropriation accounting described earlier in this paper. The basic effect of RMS in accounting will be to make the accounting records and reports of operating activities more like those of industrial and commercial firms than previously. The unique features of government accounting -- budgetary accounts and fund accounting -- remain.



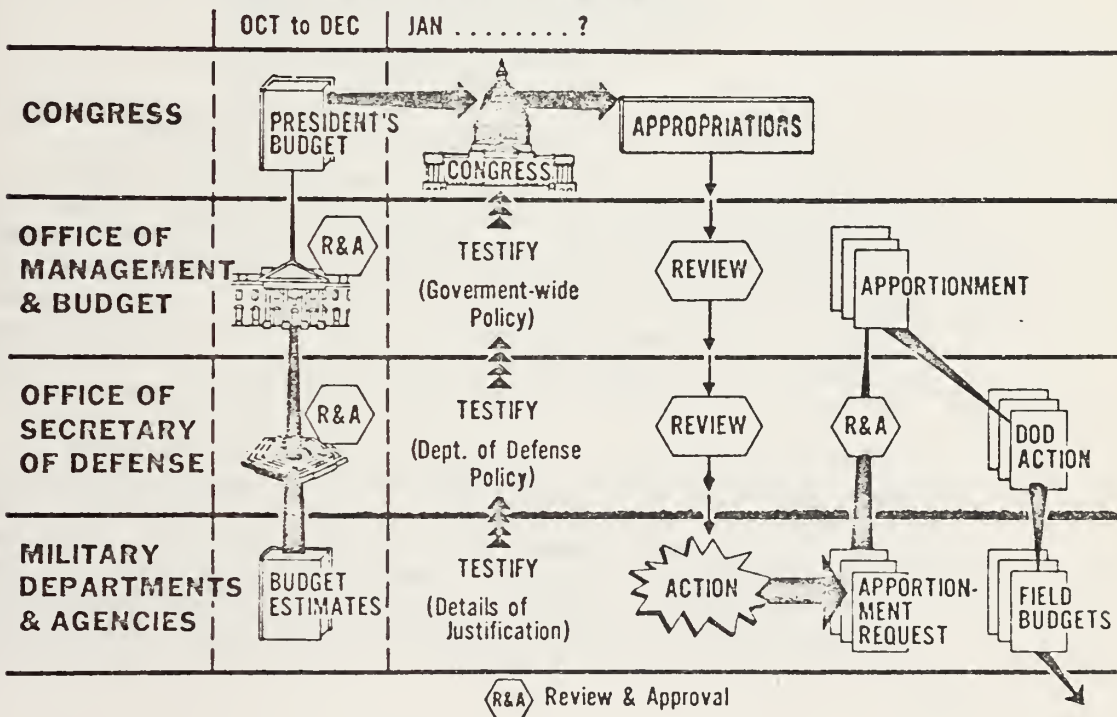
THE AIR FORCE BUDGET

MARCH 1973

CHIEF OF STAFF

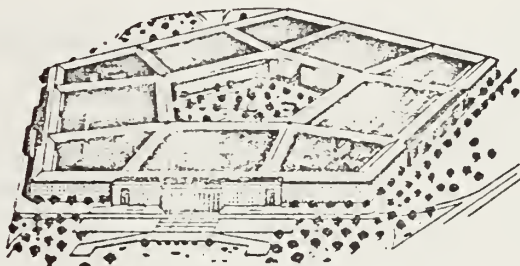
The Chief of Staff takes the final approval or adjustment action at HQ USAF. Upon approval by the Chief of Staff, the estimates are submitted for departmental approval to the Secretary of the Air Force

PPB CYCLE / BUDGET PHASE



SECRETARY OF THE AIR FORCE

The Secretary of the Air Force takes the last official action on the budget estimates in the Department of the Air Force. He is assisted in this evaluation by the Under Secretary and Assistant Secretaries, particularly by the Assistant Secretary for Financial Management.



OFFICE OF THE SECRETARY OF DEFENSE

After final approval by the Department of the Air Force, the budget estimate is transmitted to the Comptroller of the Department of Defense. He arranges for a joint review with representatives of the Office of Management and Budget, OSD and Air Force. The purpose of this joint review is to save approximately six weeks on a straight-line-chain-of-command presentation and to insure that the budget can be acted upon and printed in time for submission to Congress in January.

The joint review is facilitated and expedited by the fact that many of the staff members of both reviewing agencies will have spent considerable time during the preceding several months in visiting various major commands and installations, and will have acquired current firsthand information as to Air Force requirements, operations, programs, procedures, etc. The results of the budget "markups," which indicate amounts determined to be proper for inclusion in the President's Budget

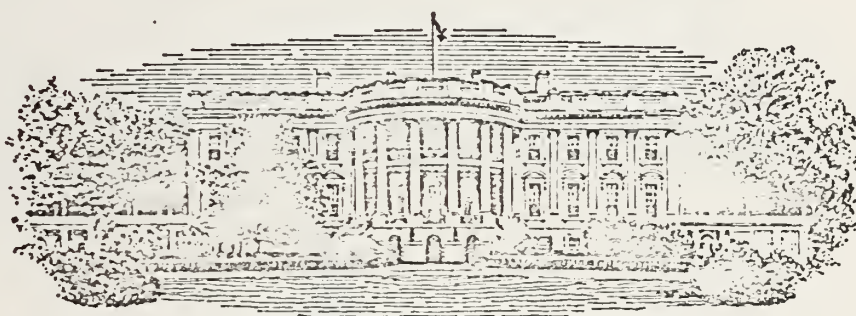
by appropriation, program, and project, are regarded as Department of Defense staff recommendations at this point. PBD's (Program Budget Decisions) in prescribed format are then issued. Based on the staff "markups" and the subsequent discussions with the Secretary and Chief of Staff, USAF, the Secretary of Defense makes his formal recommendation in writing to the Office of Management and Budget.

OFFICE OF MANAGEMENT & BUDGET

The Office of Management and Budget (OMB) becomes involved in two ways in the Air Force Budget: Formulation and Apportionment. Representatives of the OMB meet with OSD representatives in working groups and panels to review Air Force estimates and justification data prior to approval by the Secretary of Defense. It should be noted that although OMB representatives are active participants in the Air Force Budget review, the ultimate decisions are those of OSD. OSD decisions are transmitted to the Air Force for review and/or reclama. Final OSD decisions follow reclama and the resulting estimates are submitted to the OMB. The OMB takes another look and prepares its recommendations to the President. The OMB has the authority to amend accounts in its final independent review, just before the budget estimates are placed before the President for his review. With his approval, they become the President's Budget which is submitted to Congress.

Apportionment is another responsibility of the OMB. According to law, each government agency must submit a request to the OMB for an apportionment of funds. Apportionment is the distribution of the monies appropriated by the Congress in the Appropriations Act which has been signed into law by the President. The Air Force submits an apportionment request to OSD with supporting background similar to that utilized in the submission of budget estimates. This submission usually takes place prior to

1 June of each year. Adjusted requests are transmitted to the OMB by the Comptroller, OSD. Approved apportionments come back to the Air Force through OSD. Apportionments may be for 12 months or any lesser period specified and they limit the authority of the Air Force to obligate funds by appropriation or activity for the time period specified. A reapportionment may be requested by the Air Force for a number of reasons, such as the removal of a OMB limitation, the adjustment within a fixed year, or the need for an increase in the original apportionment.



THE PRESIDENT

The President, under the Constitution and laws enacted pursuant thereto, has final and conclusive authority over the budget estimates within the Executive Branch of our government. His consideration of the estimates includes the weighing not only of the factors which the Air Force considered in determining the amounts requested, but also other factors such as the needs of the government as a whole - both defense and nondefense; the necessity or possibility of balancing the budget; and how large a Federal budget the national economy will permit or may require. The President's determinations are then made known to the departments in "Letters of Allowance" from the OMB. The departments must then revise all of their various budget schedules and statements to conform to such allowances for printing in the President's Budget which goes to Congress in January.

a. Reclamas to both the "markups" received from the Department of Defense and the "allowances" announced later by the OMB are allowed if time and other considerations permit.

These appeals may request complete or partial restoration of deductions and must include the strongest possible justification for action sought. Once the "reclamas" are entertained by either the Department of Defense or the OMB - or both - their resultant decisions are binding.

b. The preparation of the Federal budget is accomplished after final Presidential determinations have been made and all agencies have revised their estimates and submitted their material to the OMB for printing in the document which goes to Congress. To the estimates of the many Executive Departments and agencies are added the estimates of the Legislative and Judiciary Branches of the government, analyses of revenues, and other numerous special analyses of various kinds. The President's Budget Message is normally included as a preface to the Federal budget. The OMB has this data printed and bound into the tremendous document called "The Budget of the U.S. Government," usually by the end of December.



CONGRESS

a. House of Representatives. In accordance with long-standing custom, the House takes first action on appropriation bills, although this is not required by law. In the House, the Budget is referred to the Committee on Appropriations, a very important standing Committee of the House. The Appropriations Committee then refers the estimates for the Air Force to the Department of Defense Subcommittee for detailed consideration.

(1) The Department of Defense Subcommittee. This group holds hearings on the broader aspects of policies, programs, and objectives for the Department of Defense as a whole. The Secretary of Defense, Assistant Secretaries of Defense, and the civilian and military heads of each of the military departments usually appear before the DOD Subcommittee. Following this, more extensive and detailed hearings on the estimates of the individual services are held by the Subcommittee. This is a very detailed, searching, and useful type of review. The presentations by the Air Force extend over a period of months.

(2) Upon completion of its hearings, the Department of Defense Subcommittee drafts an Appropriation Bill for consideration of the full Committee on Appropriations. Finally, the Bill as approved by the full Committee is brought to the floor of the House of Representatives for debate by the whole House. This is accompanied by a report which explains decisions by the Department of Defense Subcommittee which effected the Bill. It is a "Readers Digest" version of the hearings. In it may be deletions from or additions to the estimates submitted by the Services, or it could specify certain limitations which the Appropriations Committee considers necessary. The Bill might be amended on the floor of the House before it is passed.

b. The Senate. The Senate receives the Appropriation Bill passed by the House and takes similar actions to those taken by the House of Representatives. It processes the Bill through its Committee on Appropriations and to the Department of Defense Subcommittee. The Senate actions are somewhat less time consuming and detailed because it has available to it not only the House-passed Bill, but also the transcript of the Hearings held by the House Committee and Subcommittee and the report of the DOD Subcommittee. Senate action is consummated by passage of a Senate Appropriation Bill which usually and understandably differs in varying degrees from the Bill passed by the House. Then the Senate version or amendments to the Appropriation Bill are referred back to the House. The House receives and reviews the amendments as made by the Senate. If the House disagrees with any of the Senate's amendments, this difference is reconciled by means of "Conference Action."

c. Conference Action. Conference Action is the process in which the Senate and House appoint several members to a "Committee of Conference," whose function is to reconcile the two versions of the Bill so that a single Bill can be recommended which will gain the approval of both Houses of Congress. The proceedings of this Committee of Conference culminate in a "Conference Report" which is referred to both the House of Representatives and the Senate. Adoption of the Conference Report by both Houses results in passage of the Appropriation Bill.

THE UNITED STATES BUDGET IN BRIEF



FISCAL YEAR 1975

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EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
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PREPARATION AND EXECUTION OF THE FEDERAL BUDGET

The preparation and execution of the Federal budget for any fiscal year covers at least 27 months. Thus, each spring attention is directed to the control of obligations and expenditures during the final months of the year in progress; to the planning of programs for the next fiscal year, which will begin the next July; and to the development of preliminary plans and policies for the succeeding fiscal year. Even during the period of specific work on a particular budget, attention is also given to projecting the effect of program decisions on subsequent budgets and to identifying major issues or problems affecting the budget in the future.

The preparation and execution procedures change somewhat from year to year. Currently, for example, efforts are being made to improve planning, programming, and analytical techniques in close integration with the budget process. The results of these efforts should become a significant factor in the budget process in the future.

Preliminary steps

Under the newly established integrated planning-programming-budgeting system each major agency will submit to the Bureau of the Budget, about May 1, its program and financial plan which expresses in financial and non-financial quantitative terms the goals, objectives, and planned accomplishments for the next several fiscal years, usually five. The plan is a comprehensive document covering all the activities of the agency and dividing such activities into output-oriented program categories, i.e., categories which describe what is to be accomplished by each program. The plan represents the agency head's judgment on what the agency's future course of action should be to meet those national needs with which his agency is concerned.

The latest agency approved plan is accompanied by several program memoranda, setting forth analyses of the programs, possible alternative goals, and alternative methods for achieving them. Techniques such as systems analysis, operations research, and cost-benefit analysis are utilized in the agency to assist in determining and supporting the recommendations and alternatives set forth in the program memoranda.

The agency submissions are subjected to a critical examination in late May or early June by Bureau of the Budget examiners who are assigned continuing responsibility with respect to specific programs. The issues, agency program plans, and the examiners' analysis and recommendations on the agency proposals, are discussed with the Director of the Bureau of the Budget and his top assistants in light of the overall needs to be met by the Federal Government for the years covered by the plans. Proposed program expansions are viewed in terms of the additional measurable benefits they are designed to accomplish, and new programs are discussed in terms of goals and objectives. During the entire process efforts are made to identify and weed out marginal and obsolete activities so that resources may be shifted to more essential activities.

The Director discusses the results of the review with the heads of the agencies individually, and with the President as appropriate. Guidance is sought and obtained as needed.

Concurrently with preparation of program and financial plans in the agencies, staff of the Bureau of the Budget in cooperation with staff of the Treasury Department and the Council of Economic Advisers review the long-range fiscal effect of agency programs. They develop tentative assumptions on the economic environment which may govern the preparation of the upcoming and future budgets, and make projections of revenues to be expected under those assumptions. The budgetary outlook is discussed with the President, and sometimes with the Cabinet.

After the review of the agency program plans by the Bureau of the Budget in June, preliminary estimates of their effect on fiscal requirements are developed. The Director recommends to the President the fiscal policies to be followed in preparing the budget. These recommendations are arrived at in discussions with the Secretary of the Treasury and the Chairman of the Council of Economic Advisers. At this time the Director and the President have the benefit of revised estimates of revenues and economic prospects.

The President's decisions, with respect to both fiscal and program policies, are communicated to the heads of the various agencies within the executive branch for guidance in preparing their budgets.

Compilation and submission of agency estimates

During the next several months agencies revise their program plans in accordance with guidance received, and decide upon the budget requests they wish to make for the upcoming budget. They compile schedules and supporting information in accordance with the instructions prescribed by the Bureau of the Budget (Circular No. A-11).

The process of compiling the detailed estimates begins with the personnel who are responsible for carrying out the actual operations. They prepare information on obligations, personnel, workload, and other supporting data, for the year just ended (the past year), the amounts planned for the year just beginning (the current year), and the estimates for the budget year, which still will not begin for almost a year.

In most agencies preparation of the budget begins at the field station level. It then goes through successive stages of review within the agency. At each level of review the viewpoint is different -- the regional office must consider the estimates of each field station in relation to other field stations and to the total requirements for the region. Finally, at the departmental level, the estimates for bureaus and major programs must be judged in comparison with other bureaus and programs and with the total for the agency.

Agency budget submissions are due in the Bureau of the Budget in September. The submission covers all accounts in which money is available for obligation or expenditure, whether or not any action by Congress is requested. Schedules are based on amounts already available for the current fiscal year and those specifically requested for the budget year for programs in effect as of the date of the budget submission, including those for which additional authorizing legislation is required in order to carry them on during the budget year. The agencies also submit summary information with respect to items to be formally requested later covering (1) anticipated additional requirements for the current year which were not foreseeable at the time the appropriations were enacted and (2) amounts which are expected to be required to finance new legislative programs recommended by the President.

In addition to the detailed schedules and other material, beginning with the budget for the fiscal year 1968, the major agencies resubmit program memoranda and program and financial plans which have been updated and revised to take into account the results of the spring preview.

Review of agency estimates in the Bureau of the Budget

When the estimates are received in the Bureau of the Budget, they are referred to the examiners assigned to the programs involved. All the knowledge the examiners possess about the agency -- whether based on long-run analysis, field investigations, special studies, or conferences held with agency officials -- is brought to bear on the estimates at this time. The examiners must be thoroughly familiar with the President's budget policy and previous congressional action, as well as with the programs of the agency and their relationship to activities of other agencies. The examiners at this time give considerable attention to the bases for the individual estimates: the volume of work on hand and forecast; the method by which the agency proposes to accomplish its objectives; and the estimates of requirements in terms of numbers of people required. They review past performance, check the accuracy of factual information presented, and consider the future implication of the program. They identify matters of major importance and the issues raised for discussion with agency representatives at hearings. The hearings usually last only a few hours for a small agency, but may run into weeks for a large department.

After the hearings are completed, the examiners prepare their recommendations for the Director's Review. This review concentrates attention principally on the major items involving Presidential policy, but also provides a test check on other aspects of the recommendations. Assumptions with respect to the economic outlook and the international situation are brought up to date as a basis for this review.

Examining staff sometimes discuss the Director's tentative decisions with the budget officer of the agency to identify and narrow the issues which require special Presidential attention.

Similar to the procedure in the Preview, the Director meets with the head of each major agency to discuss with him the information and recommendations which the Director proposes to make to the President. The agency head thus has an opportunity to appeal to the Director for reconsideration of any reductions which the Bureau might be proposing that the President make in the agency's request. The agency's position and the substance of the appeal, if the difference cannot be resolved, are noted in the material supporting the Bureau's recommendations sent to the President and a decision is requested. The President is also informed of the likely consequences of adopting alternative positions on the issues placed before him.

The process of review occupies the Bureau of the Budget from the latter part of September until the beginning of December. During this period, the economic outlook is again assessed by the Treasury Department, the Council of Economic Advisers, and the Bureau, and revenue estimates are jointly agreed to for presentation to the President.

Decision by the President

Because of the scope and complexity of the budget, the recommendations are sent to the President as portions of the Budget Bureau review are completed. Tables and analyses are prepared to present the Director's recommendations to the President, identifying the issues involved and areas of disagreements with the agency head. The President is faced with the task of recommending a budget which meets the most urgent needs of the country and still is prudent within the constraints imposed by the availability of resources. This task is complicated by the large segment of budget expenditures which is relatively unaffected by the annual budget process -- for the last few years such items as interest on the public debt, veterans pensions, grants for public assistance, and agricultural price supports have accounted for over half of the total non-defense budget expenditures or about 25 percent of the grand total. The level of these expenditures depends upon provisions of the laws which authorized the programs and on other factors not readily subject to annual budgetary control. As soon as the President makes his decisions, each agency head is notified by the Director of the amounts which will be recommended to Congress for his agency's programs for the ensuing fiscal year.

Preparation of the budget document

When the agency receives its budget allowance, the initial budget estimates are revised -- in conformity with the President's decisions -- for inclusion in the printed budget documents. The Budget Appendix sets forth the exact wording of the appropriation language last enacted by the Congress, with the changes proposed by the President, together with detailed schedules supporting each estimate. In line with the policies set forth in Public Law 84-863, cost type budget presentations are now used for most accounts. This type of presentation, based on accrual accounting systems, provides information on inventories and other resources available to finance the agency's program and on the costs for these resources accruing within each fiscal.

As soon as revisions of the individual schedules for each agency are completed, the figures from the individual appropriation and authorization schedules are summarized for each agency. Figures from the agency summaries are then consolidated to make up the tables which, together with final revenue estimates prepared by the Treasury Department, set forth the budget totals.

Submission to Congress

The President's budget is transmitted to the Congress in January, but staff of the House Appropriations Committee may start work on the estimates before that time, based on advance proofs of certain chapters. The Director of the Bureau of the Budget and the Secretary of the Treasury are sometimes invited to appear before the Appropriations Committee to explain the general basis for the preparation of the budget proposals.

Agencies prepare and submit justifications providing additional detailed information for consideration by the Appropriations Committee, and agency witnesses appear before its subcommittees to explain the estimates and answer questions. The justification material presented to the Committee generally is the same type of material given to the Bureau of the Budget earlier -- revised to reflect the President's decisions on the budget. However, if the Committee wishes additional information or a different format of justification, it is provided.

The Committee reviews performance in the past year and the latest available information on the status of current year programs, as well as the estimates proposed for the budget year. Agencies also present information on balances of prior appropriations. In the case of major procurement programs (as in Defense) which require a long period of time between placing the orders and the delivery of material, the justification usually includes information on delivery schedules.

In many cases, the Committee regularly receives agency financial and work reports, and information from the General Accounting Office on the results of its audits of the agencies. It also has available its own staff and investigative staff on detail to it from executive branch agencies.

About twelve appropriation bills are prepared and adopted each year. After an appropriation bill is passed by the House, the Senate Appropriations Committee receives further statements and justifications from the agencies and its subcommittees hold hearings on the estimates.

After action on the bill is completed by the House and the Senate, the bill as passed is presented to the President, who has the power to veto the bill as a whole but not specific items in it. Congressional action on many appropriation bills is usually not completed until sometime in July or August, which is after the beginning of the fiscal year for which the funds are requested.

Budget amendments and supplemental estimates

Even while congressional review of the budget is in process, continuing attention in the agencies is being given to the need for revising the original estimates upward or downward, due to developments which have arisen since the estimates were originally submitted to the Congress. Additional funds for the budget year may be required to carry out programs for which new legislation is enacted or to meet emergencies which have arisen since the budget was prepared. While preliminary estimates are included in the budget totals for the new legislation anticipated at the time the budget is prepared, specific amounts which are subsequently recommended to the Congress are the result of detailed analysis and review, based on the conditions at the time the recommendation is transmitted.

During this same period, additional amounts required for the current year are recommended in the form of supplemental estimates.

Apportionment by the Bureau of the Budget

The Anti-Deficiency Act -- Section 3679 of the Revised Statutes, as amended -- requires that the Director of the Bureau of the Budget apportion, with a few exceptions, appropriations and funds made available to the executive branch. One type of violation occurs when an agency incurs obligations or makes expenditures in excess of the amounts apportioned.

The apportionment system is intended to achieve the most effective and economical use of the funds available and, for appropriations available for a definite period of time, to prevent the necessity for supplemental or deficiency appropriations. The Anti-Deficiency Act permits apportionments which anticipate the need for a supplemental appropriation, only when the appropriation is needed to meet expenditures required by laws enacted subsequent to the transmission of appropriation estimates (e.g., Government-wide salary increases) or to meet certain specified emergency conditions. In each case

where an apportionment is made on the basis of an anticipated supplemental, a report of the facts is required by law to be submitted to the Congress.

Agency requests for apportionments must be submitted to the Bureau of the Budget by May 21 of each year or within 15 days after approval of the appropriation act, whichever is later. The requests are referred to the examiners responsible for the programs involved who give close scrutiny to the request and the supporting material in arriving at their recommendations on amounts to be apportioned. The Bureau is required to act on the apportionment request by June 10, or 30 days after the approval of the appropriation act, whichever is later. Reserves may be established "to provide for contingencies, or to effect savings whenever savings are made possible by or through changes in requirements, greater efficiency of operations, or other developments subsequent to the date on which such appropriation was made available." Amounts reserved may not be obligated by the agency, but may be released in whole or in part by further reapportionment action by the Bureau at any time during the year.

Agency controls over funds

Each agency is required by law to have a system of administrative control which is designed to (1) restrict obligations or expenditures against each appropriation or fund to the amount of the apportionments or reapportionments of such appropriation or fund, and (2) enable the agency head to fix responsibility for the creation of any obligation or the making of any expenditure in excess of an apportionment or reapportionment.

In most agencies, the system of administrative control is based on allotments to the personnel in the various organization units who have authority to incur obligations in carrying out the programs of the agency.

By the time the appropriation bill for a fiscal year is finally enacted, the agency's plans for the fiscal year must be brought up to date. The revisions take account of changes in the amounts expected to become available and of changes in conditions which affect the agency's program. The plans at this stage are usually more specific than they were at the time the original estimates were prepared. The revised plans are usually prepared in the same office which prepared the original budget estimates, and are again reviewed and consolidated at successive levels in the agency to serve as a basis for both the apportionment requests to the Bureau of the Budget and for allotments within the agency.

Review of progress during the year

Progress on the budget program is reviewed throughout the fiscal year at successive levels, both in the agency and the Bureau of the Budget. Periodic reports on the status of apportionments are supplemented by more specialized reports which relate accomplishments to cost. Shifts in the agency budget plans are frequently required to meet changing conditions -- to finance unforeseen emergencies or to provide savings where the workload is less than was estimated or where increased efficiency permits accomplishment at less cost than was anticipated.

APR 1956



NEWS RELEASE

OFFICE OF ASSISTANT SECRETARY OF DEFENSE PUBLIC AFFAIRS

WASHINGTON, D.C. 20301

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FY 1975 DEPARTMENT OF DEFENSE BUDGET

The Defense Budget for FY 1975 is based upon the continued need for a strong Defense posture to support United States national objectives and represents the minimum level of resources necessary to assure that goal. For the first time in 10 years, the Defense budget does not include funds to support combat operations of U. S. forces any place in the world. The transition from support of U. S. forces involvement in combat operations in Southeast Asia to full South Vietnamese responsibility for protection of their sovereignty has been completed. The U. S. role of material support to the Armed Forces of South Vietnam will continue in FY 1975.

The changed situation in Southeast Asia does not, however, obviate the need for U. S. military readiness. A strong defense posture today remains absolutely essential to the security of the United States and the safety of our people. It is the cornerstone of our ability to carry out meaningful negotiations on arms and forces limitations as we continue to seek reductions of world tensions and the deterrence of war across the entire spectrum of potential risk.

As Secretary of Defense James R. Schlesinger has stated: "This budget bears directly on whether or not the United States will continue to fulfill the responsibilities that it has around the world." The budget has been prepared to fulfill these national objectives.

A fiscal year 1974 supplemental also is urgently recommended at this time to maintain and improve essential force readiness in the near term; and that force readiness will continue to be maintained and improved in FY 1975. Specific attention is given to providing more combat forces within an essentially level constant-dollar budget. Important modernization programs will continue, although manpower costs continue to rise, for the second successive year. The proportion of the budget devoted to personnel and related costs will remain stable at 55%.

(MORE)

The attached charts and a separate package of more detailed data contain specifics of the FY 1974 Supplemental and the FY 1975 budget request.

Highlights of the Defense Budget are summarized below:

Financial

- The budget includes FY 1974 supplemental requests for \$2.8 billion over amounts currently appropriated by the Congress. Of this amount, \$3.4 billion is required for pay and benefit increases, most of which was included in the original FY 1974 budget requirements in January 1973. The balance of \$1.8 billion is urgently required to maintain the required readiness level of U. S. Forces. The total budget request for FY 1974 of \$87.1 billion total obligational authority is still more than \$400 million below the amounts originally requested by the Department for FY 1974.
- The FY 1975 budget request for total obligational authority is \$92.6 billion, an increase of \$5.5 billion over FY 1974. This increase is fully required to cover pay and benefit increases. Pay increases alone will require \$3.5 billion additional for FY 1975.
- FY 1975 outlays are estimated at \$85.8 billion. At this level, Defense continues to decline as a percentage of the total Federal Budget from 27.9% in FY 1974 to 27.2% in FY 1975. Defense outlays continue for the second year to represent less than 6% of the Gross National Product. The pre-war FY 1964 percentage was 8.3%. A fiscal year 1975 Defense budget at the pre-war FY 1964 share of GNP would total more than \$120 billion.
- The Defense share of the Federal Budget at 27.2% and of the GNP at 5.9% is at its lowest level since 1950.
- Defense represents 17.1% of net public spending, continuing a decline from the FY 1968 level of 29.2% and 11 percentage points below FY 1964.
- Defense outlays in constant dollars (eliminating pay and benefit increases) have decreased \$38.8 billion since the Southeast Asia war peak in FY 1968. This represents a full return of the "Peace Dividend", plus an additional \$7.8 billion reduction below the pre-war FY 1964 level of outlays.
- Investment programs (Procurement, RDT&E, Construction) increase in FY 1975 by \$2.8 billion of which \$1.5 billion is attributable to inflation. The largest program increases are for TRIDENT (\$+600 million), AWACS (\$+607 million); and Patrol Frigate (\$+437 million).

(MORE)

- Operating programs (Military Personnel and Operation and Maintenance) increase by \$3.9 billion, but \$3.6 billion of this amount is required to cover pay and price increases. Significant operating fund increases include airlift crews and associated costs (\$+120 million), ship alterations and maintenance (\$+100 million), unit personnel readiness (\$+110 million) and Guard and Reserve Force readiness (\$+195 million).

- Military Assistance Programs are budgeted at \$1.3 billion -- a decrease of \$2.0 billion almost wholly related to the large increase for Israel in FY 1974 that is not reflected in FY 1975.

Major Program Changes

- Strategic Forces programs increase by \$700 million in FY 1975, of which \$400 million represents pay and price increases. Even in current dollars, strategic forces funding is below pre-war 1964, and in terms of constant buying power, funding for these forces is at 50% of the 1964 level. The TRIDENT program accounts for a major part of the FY 1975 increase.

- General Purpose forces show a \$2.7 billion increase in current dollars. All of this increase plus an additional \$500 million is required to cover pay and price increases for support of these forces. In terms of constant dollars, funding decreases in FY 1975 and is more than a billion dollars below the FY 1964 level.

- Intelligence and Communications programs will increase by \$600 million, of which \$200 million represents a real program increase. On a constant dollar basis, these programs are \$1.1 billion below FY 1964.

Intelligence programs increase by about \$140 million. with almost \$100 million required to cover pay and price increases. The balance is required to support classified intelligence programs.

Communications programs requirements are \$300 million above FY 1974. Of this amount, almost \$200 million is due to pay and price increases. The real program increase of \$100 million covers numerous relatively small improvements to communications systems of all of the military departments, including the Defense Communications System (DCS).

- Airlift and Sealift programs remain level for FY 1974 and FY 1975, and are only slightly more than 50% of the FY 1964 program funding level. Airlift improvement initiatives started with the FY 1974 Supplemental are continued in FY 1975, but most are offset by reductions in C-130H procurement. Also, a part of the funds are carried under Central Supply and Maintenance programs due to the character of the initiatives.

(MORE)

Guard and Reserve Forces funding continues the increase in FY 1972. While the increase amounts to \$400 million in the budget request, \$300 million is required to offset pay and price increases. The major increase is in operation and maintenance funding for depot maintenance of equipment, civilian technicians, and supplies necessary to support the more modern equipment provided to these forces over the last few years.

Research and Development will increase by \$1.4 billion, including \$500 million to offset pay and price increases. The "Military Program" Research and Development differs from the appropriation in that when operational systems enter the production phase, the production and research costs associated with these systems are allocated to appropriate specific force programs.

Basic research and exploratory development funding will remain in FY 1975 at the FY 1974 level of \$1.4 billion. This represents research accomplished prior to actual weapons systems certification.

Advanced systems development will increase by about \$650 million in FY 1975 with some of the larger increases being for: Defense, \$50 million; Strategic Cruise Missile, \$42 million; Launched Cruise Missile, \$69 million; and Advanced ICBM technology, \$33 million.

Engineering (full scale) development of weapons systems will increase by almost \$500 million. The principal systems involved are: TRIDENT Missile, \$121 million; AWACS, \$64 million; Advanced Airborne Command Post, \$52 million; B-1 Bomber, \$51 million; AF Air Combat Fighter, \$36 million; and Navy Fighter prototype, \$34 million.

Central Supply and Maintenance covers the logistics operations of the Department. Although there is a \$400 million increase in the FY 1975 budget request, pay and price increases will increase costs about \$600 million. The constant dollar program decreases by \$200 million. Although overall program costs decrease, improvement has been budgeted in depot maintenance of material and in ship overhaul programs.

Training, Medical and General Personnel Activities increase \$19 billion with a real program increase of \$500 million.

The largest increase in this program is for Military Pay and Pensions in the amount of \$800 million. Of this amount, \$1 billion is a real program change associated with retired pension increases.

(MORE)

The other major real program increase is in Family Housing and Military Construction of about \$100 million.

Pay and price increases, excluding Retired Pay, will require almost \$900 million in FY 1975 over FY 1974.

- Administration and Associated Activities reflect a real program increase of \$200 million and a budget increase of \$400 million. The real program increase primarily results from the requirement for the Defense Department to pay the General Services Administration for rental of Government-owned but GSA-managed office space. The FY 1975 budget includes \$181 million for this purpose.

- Support of Other Nations is primarily the Military Assistance Program and Free World Force Support (South Vietnam only in FY 1975) in the regular Defense budget. As previously discussed, the Military Assistance Program decreases \$2.0 billion in FY 1975, and the Free World Force program increases by \$550 million.

Forces and Personnel

- Strategic missile forces do not change in total, but modernization of Minuteman and conversion of Polaris to Poseidon submarines continues.

- Strategic bomber forces have been reorganized into 27 squadrons with no decrease in the number of aircraft in the force.

- Since FY 1964, the mix of our strategic missile and bomber forces has changed significantly as missile forces have been increased and bombers retired from the force. Strategic Force capability has been greatly improved by force improvement and modernization programs.

- Active air defense units are further decreased as marginally effective units are retired in accordance with established plans.

- Army divisions will be increased to 13-1/3 by reorganization and allocation of manpower from support to combat units. Marine Corps divisions (3) remain unchanged. Our total land forces divisional strength at the end of FY 1975 will be 16-1/3 divisions as contrasted with the pre-war FY 1964 strength of 19-1/3 divisions.

- Tactical air forces remain stable and are at about the same level as pre-war FY 1964.

- Naval forces show the greatest change over the period FY 1964 -- FY 1975. Forces have been reduced as marginally effective ships have been retired. Further, to support ship modernization

(MORE)

programs, trade-offs between ships and personnel have been made by the Navy. Principal changes from FY 1974 to FY 1975 result from the delivery of new ships to the fleet.

- Airlift and Sealift forces remain unchanged in FY 1975.

- Total Defense direct military and civilian employment at the end of FY 1975 will be 3,180,000. This is 23,000 below the end FY 1974 strength. It is also 540,000 below the FY 1964 strength and 1,654,000 below the peak war FY 1968 level.

- Military Personnel strengths continue to decrease in total. Of the 22,000 decrease in FY 1975, about 10,000 represent the continued civilianization program started in FY 1973. During the period FY 1966 - FY 1975, a total of about 157,000 military positions will have been reduced due to civilianization programs. These programs must be taken into consideration in comparing military and civilian strengths between years.

- Civilian Personnel strengths remain essentially level between FY 1974 and FY 1975. Civilian positions will increase by about 9,000 due to the civilianization program and this will be offset by a 10,000 reduction due to program changes. During the period FY 1966 - FY 1975, a total of about 133 thousand civilian positions were added to civil service rolls as a result of civilianization programs.

- Defense related industry employment will continue its slowest increase since FY 1973. It will, nevertheless, continue to be substantially below the pre-war FY 1964 level and almost 5 below the FY 1968 war peak.

- Defense manpower (direct and industry related) will take only 5.2% of the total labor force in FY 1975. The FY 1964 percentage was 7.9%, rising to 9.7% at the peak of the Southeast Asia war.

Summary

The 1975 Defense budget provides for maintaining the high level of military capability that is required for our national security, the support of negotiations, and the fulfilling of U.S. responsibilities around the world.

In terms of real purchasing power, there is little change in the Defense budget from FY 1974 to FY 1975. Both budgets are below the FY 1973 level, and they represent -- in terms of manpower and purchasing power -- the lowest Defense budget levels since FY 1951.

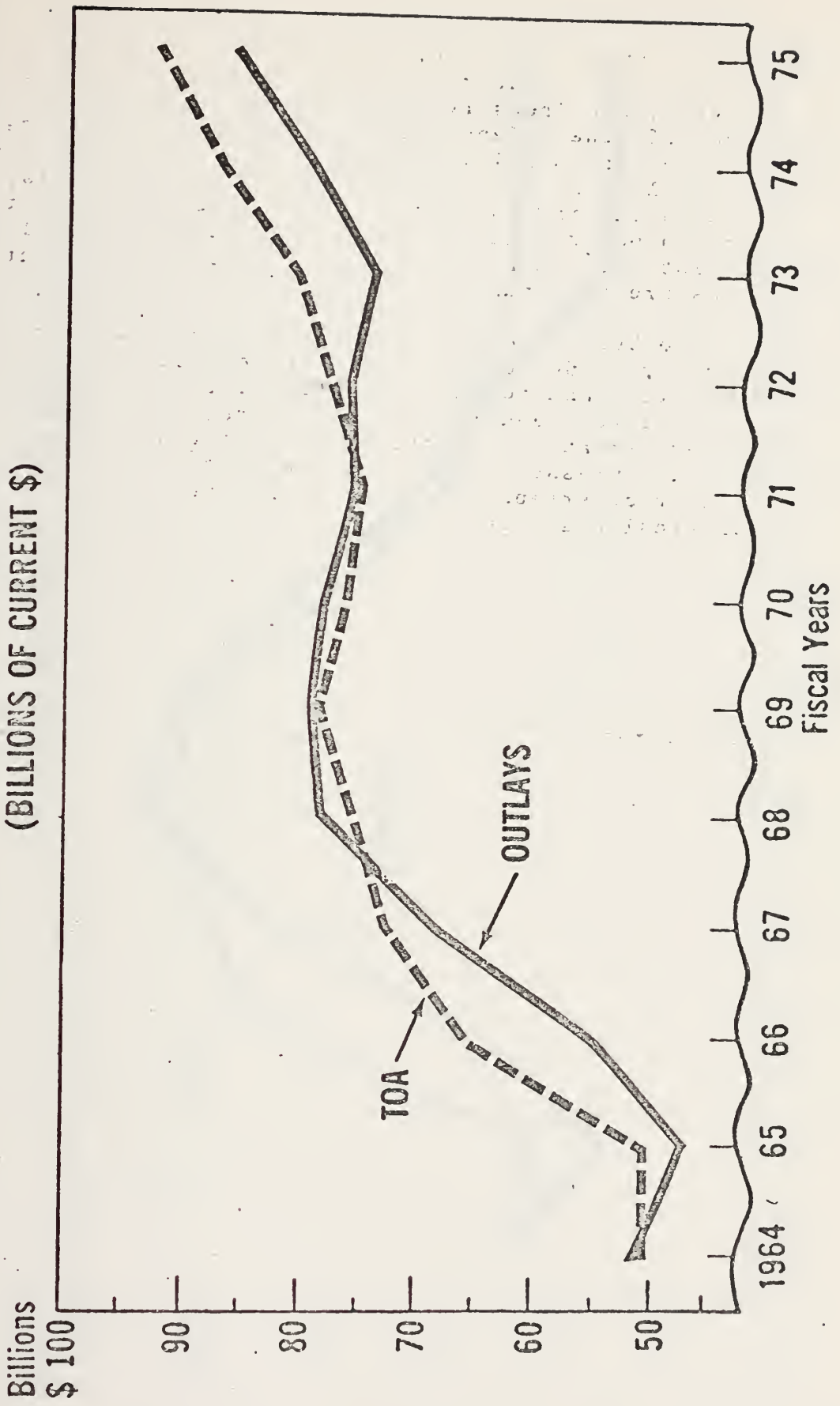
(MORE)

In numerical terms, our forces are at the lowest level for a quarter century. Counting military personnel, civil service, and industry employment, more than 3 million people have left the Defense program since 1968; manpower in 1975 is more than a million below the levels of the peacetime years of the 1950's and early 1960's. The emphasis is, and must be, upon maximizing the capability of these smaller forces -- through modernization, exploiting technology, vigorous and realistic training, and the provisions of adequate inventories to assure readiness.

The budget for FY 1975 represents a balanced austere program considering personnel and force levels, modernization, technology and readiness requirements. It is the minimum budget level required to support our national objectives of the preservation of peace and the total deterrence of attacks or undue pressure on the United States or its Allies -- strategic nuclear deterrence, conventional force deterrence, and economic/political pressure deterrence.

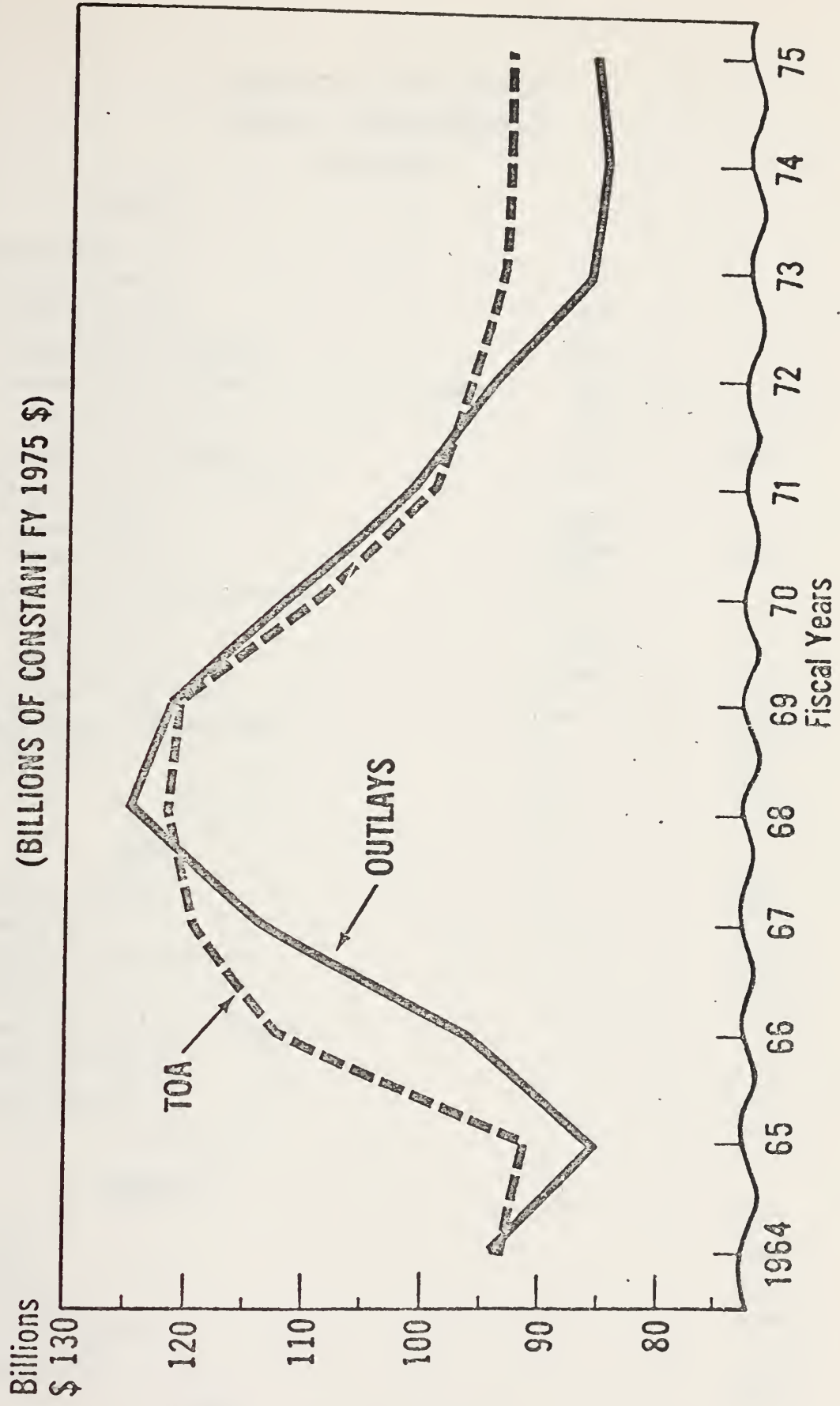
Enclosures - Charts

DEPARTMENT OF DEFENSE BUDGET
BUDGET TRENDS
(BILLIONS OF CURRENT \$)



DEPARTMENT OF DEFENSE BUDGET
BUDGET TRENDS

(BILLIONS OF CONSTANT FY 1975 \$)



DEPARTMENT OF DEFENSE BUDGET
FY 1974 SUPPLEMENTALS
(\$ MILLIONS)

PURPOSE

Force Readiness		
Fuel Price Increase	480	
Middle East Payback	231	
Augmented Force Readiness	1,397	
Increased Airlift Capability	169	
Accelerated Modernization	516	
Strategic Program Changes	25	2,818
Military and Civilian Pay Increases		
1 January 1973	1,495	
1 October 1973	1,060	2,555
Retired Pay Cost of Living Increase		
1 July 1973	287	
1 January 1974	182	469
Wage Board Pay Increases		236
Basic Allowance for Subsistence		107
Postal Costs		48
Total		6,233

TITLE

Military Personnel	2,000
Retired Pay	469
Operation and Maintenance	1,742
Procurement	1,772
Research, Dev., Test and Evaluation	217
Military Construction	29
Family Housing	4
Total	6,233

COMPONENT

Army	1,872
Navy	1,866
Air Force	1,918
Defense Agencies	104
Defense-Wide	473
Total	6,233

SCHEDULING OF FY 1975 APPROPRIATIONS REQUESTS

(\$ MILLIONS)

Appropriations (TOA) Requested with Budget Transmittal on January 28 1974	90,337
Appropriations to be Requested at a later date, but included in a Defense Budget, as detailed below	2,242

TO FINANCE FUTURE PAY RAISES:

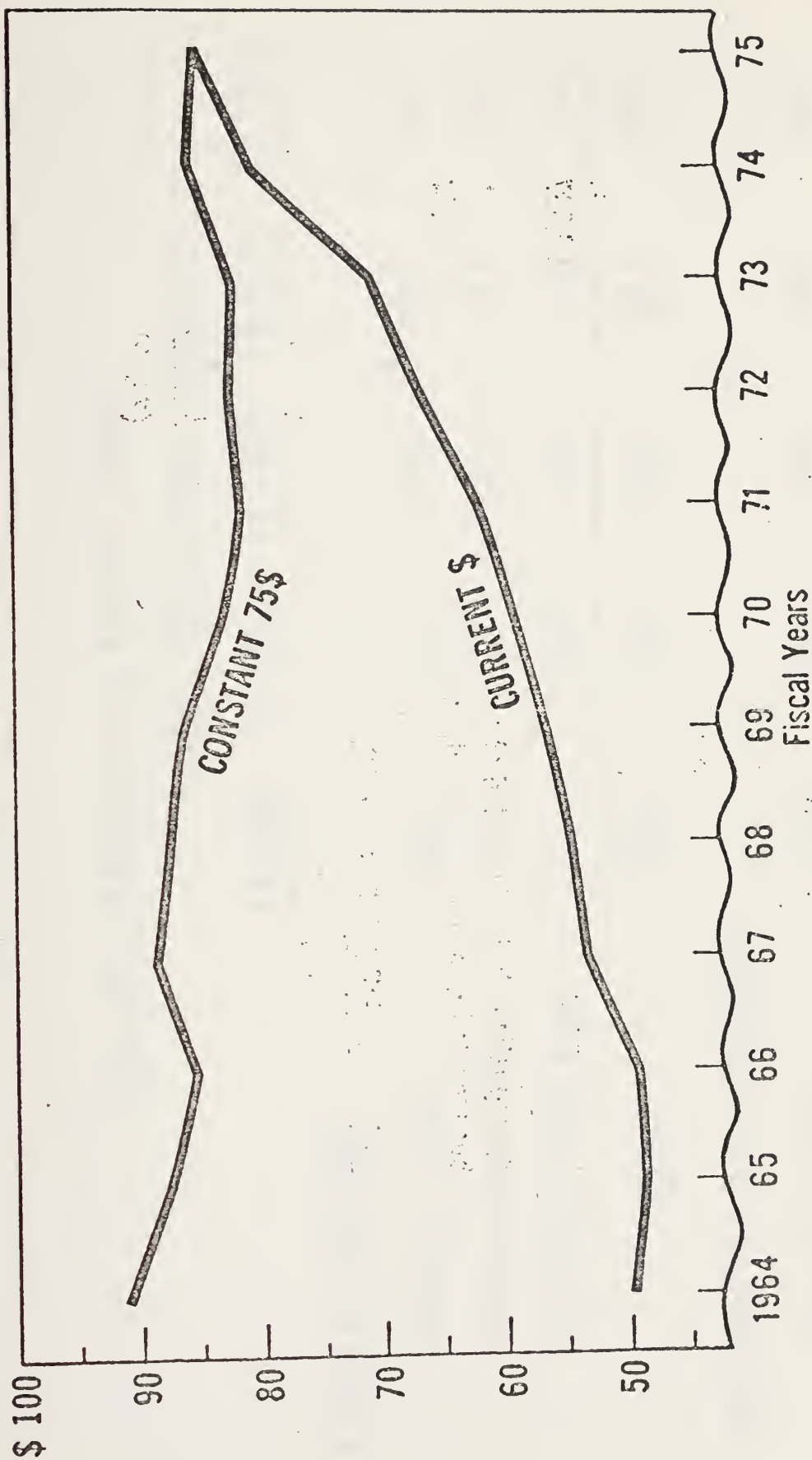
1 October 1974 Military and Civilian Pay Raises	(1,525)
FY 1975 Wage Board Pay Raises	(215)
Retired Pay CPI Increase	(260)
Subtotal	(2,000)

TO FINANCE PROPOSED LEGISLATION NOT YET ENACTED:

Retired Pay Reform	(55)
Volunteer Forces	(153)
Flight Pay	(25)
Selective Continuation of Officers	(9)
Subtotal	(242)

TOTAL BUDGET REQUEST - FY 1975 92,579

BUDGET TRENDS
BASELINE FORCE FUNDING
(TOA - \$ BILLIONS)



DEPARTMENT OF DEFENSE BUDGET

FINANCIAL SUMMARY

(BILLIONS OF CURRENT \$)

Allocation of Resources to Baseline Forces

TOTAL OBLIGATIONAL AUTHORITY

	<u>FY 1964</u>	<u>FY 1968</u>	<u>FY 1973</u>	<u>FY 1974</u>	<u>FY 1975</u>
<u>CURRENT DOLLARS</u>					
Baseline Forces	49.4	54.2	70.9	80.3	84.7
Military Retired Pay	1.2	2.1	4.4	5.2	6.0
Additional SEA Cost	-	19.3	5.2	1.6	1.9
TOTAL	50.6	75.6	80.5	87.1	92.6

CONSTANT FY 1975 DOLLARS

Baseline Forces	91.0	87.6	82.0	85.6	84.7
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DEPARTMENT OF DEFENSE BUDGET FINANCIAL SUMMARY

(Billions of \$)

APPROPRIATION TITLE	CURRENT DOLLARS		
	FY 1964	FY 1968	TOTAL OBLIGATIONAL AUTHORITY FY 1974 FY 1975
Military Personnel	13.0	19.9	24.4 25.9
Retired Pay	1.2	2.1	5.2 6.0
Operation & Maintenance	11.7	20.9	24.2 26.6
Procurement	15.0	22.6	18.7 19.9
RDT&E	7.1	7.3	8.3 9.4
Military Construction	1.0	1.5	1.8 2.1
Family Housing	.6	.6	1.1 1.3
Civil Defense	.1	.1	.1 .1
Military Assistance	1.0	.6	3.3 1.3
Total	50.7	75.6	87.1 92.6

DEPARTMENT OF DEFENSE BUDGET

FINANCIAL SUMMARY

(\$BILLIONS)

CONSTANT FY 1975 DOLLARS
TOTAL OBLIGATIONAL AUTHORITY

APPROPRIATION TITLE	FY 1964	FY 1968	FY 1974	FY 1975
Military Personnel	30.9	37.8	26.2	25.9
Retired Pay	2.4	3.6	5.7	6.0
Operation & Maintenance	21.0	33.4	26.0	26.6
Procurement	23.2	31.7	19.5	19.9
RDT&E	11.2	10.4	8.8	9.4
Military Construction	1.9	2.6	1.9	2.1
Family Housing	1.0	.9	1.2	1.3
Civil Defense	.2	.1	.1	.1
Military Assistance	1.5	.8	3.4	1.3
TOTAL	93.3	121.5	93.0	92.6

FINANCIAL SUMMARY

(BILLIONS OF \$)

CURRENT DOLLARS
TOTAL OBLIGATIONAL AUTHORITY

<u>MILITARY PROGRAM</u>	<u>FY 1964</u>	<u>FY 1968</u>	<u>FY 1974</u>	<u>FY 1975</u>
Strategic Forces	8.5	7.2	6.9	7.6
General Purpose Forces	16.4	30.4	27.9	29.2
Intelligence & Communications	4.4	5.5	5.9	6.5
Airlift & Sealift	1.0	1.8	1.0	1.0
Guard & Reserve Forces	1.8	2.2	4.4	4.8
Research & Development	4.8	4.3	7.0	8.4
Central Supply & Maintenance	4.6	8.4	8.9	9.3
Training, Med. & Gen. Pers. Activ.	7.0	12.2	18.2	20.1
Administration	1.1	1.2	1.8	2.2
Support of Other Nations	1.1	2.4	5.1	3.5
Total	50.7	75.6	87.1	92.6

DEPARTMENT OF DEFENSE BUDGET
 FINANCIAL SUMMARY
 (BILLIONS OF \$)

CONSTANT FY 1975 DOLLARS
 TOTAL OBLIGATIONAL AUTHORITY

<u>MILITARY PROGRAM</u>	<u>FY 1964</u>	<u>FY 1968</u>	<u>FY 1974</u>	<u>FY 1975</u>
Strategic Forces	15.1	11.4	7.3	7.6
General Purpose Forces	30.4	48.4	29.7	29.2
Intelligence & Communications	7.6	8.5	6.3	6.5
Airlift & Sealift	1.9	2.7	1.0	1.0
Guard & Reserve Forces	3.7	3.8	4.7	4.8
Research & Development	7.9	6.3	7.5	8.4
Central Supply & Maintenance	8.4	13.3	9.5	9.3
Training, Medical, other Gen. Pers. Activ.	14.5	21.4	19.6	20.1
Administration & Assoc. Activities	2.1	2.1	2.0	2.2
Support to Other Nations	1.7	3.6	5.4	3.5
Total	<u>93.3</u>	<u>121.5</u>	<u>93.0</u>	<u>92.6</u>

DEFENSE EMPLOYMENT OUTLOOK

(END YEAR - IN THOUSANDS)

	<u>FY 1964</u>	<u>FY 1968</u>	<u>FY 1973</u>	<u>FY 1974</u>	<u>FY 1975</u>	<u>CHANGE</u> <u>FY 74-FY 75</u>
MILITARY						
Army	972	1,570	801	782	785	+3
Navy	667	765	564	551	541	-10
Marine Corps	190	307	196	196	196	.
Air Force	856	905	691	645	630	-15
TOTAL Military	<u>2,685</u>	<u>3,547</u>	<u>2,252</u>	<u>2,174</u>	<u>2,152</u>	<u>-22</u>
CIVILIAN						
Army	360	462	333	356	359	+3
Navy	332	419	322	326	324	-2
Air Force	305	331	271	271	270	-1
Defense Agencies/OSD	38	75	72	76	75	-1
TOTAL Civil Service	<u>1,035</u>	<u>1,287</u>	<u>998</u>	<u>1,029^a</u>	<u>1,028</u>	<u>-1</u>
TOTAL - Military and Civil Service	<u>3,720</u>	<u>4,834</u>	<u>3,250</u>	<u>3,203</u>	<u>3,180</u>	<u>-23</u>
DEFENSE RELATED INDUSTRY	<u>2,280</u>	<u>3,173</u>	<u>1,693</u>	<u>1,742</u>	<u>1,752</u>	<u>+10</u>
TOTAL DEFENSE MANPOWER	<u>6,000</u>	<u>8,007</u>	<u>4,943</u>	<u>4,945</u>	<u>4,932</u>	<u>-13</u>

^a/ Includes 19 thousand positions in FY 1974 Supplemental.

SUMMARY OF SELECTED ACTIVE MILITARY FORCES

	Actual June 30, 1964	Actual June 30, 1973	Estimated	
			June 30, 1974	June 30, 1975
STRATEGIC FORCES:				
Intercontinental Ballistic Missiles:				
MINUTEMAN	600	1,000	1,000	1,000
TITAN II	108	54	54	54
POLARIS-POSEIDON Missiles	336	656	656	656
Strategic Bomber Squadrons	78	30	28	27 ★
Manned Fighter Interceptor Squadrons	40	7	7	6
Army Air Defense Firing Batteries	107	21	21	0
GENERAL PURPOSE FORCES:				
Land Forces:				
Army Divisions	16 1/3	13	13	13 1/3
Marine Corps Divisions	3	3	3	3
Tactical Air Forces:				
Air Force Wings	21	22	22	22
Navy Attack Wings	15	14	14	14
Marine Corps Wings	3	3	3	3
Naval Forces:				
Attack & Antisubmarine Carriers	24	16	14	15
Nuclear Attack Submarines	19	60	61	67
Other Warships	368	242	186	191
Amphibious Assault Ships	133	66	65	65
AIRLIFT AND SEALIFT FORCES:				
Strategic Airlift Squadrons:				
C-5A	0	4	4	4
C-141	0	13	13	13
Troopships, Cargo Ships and Tankers	100	53	32	32

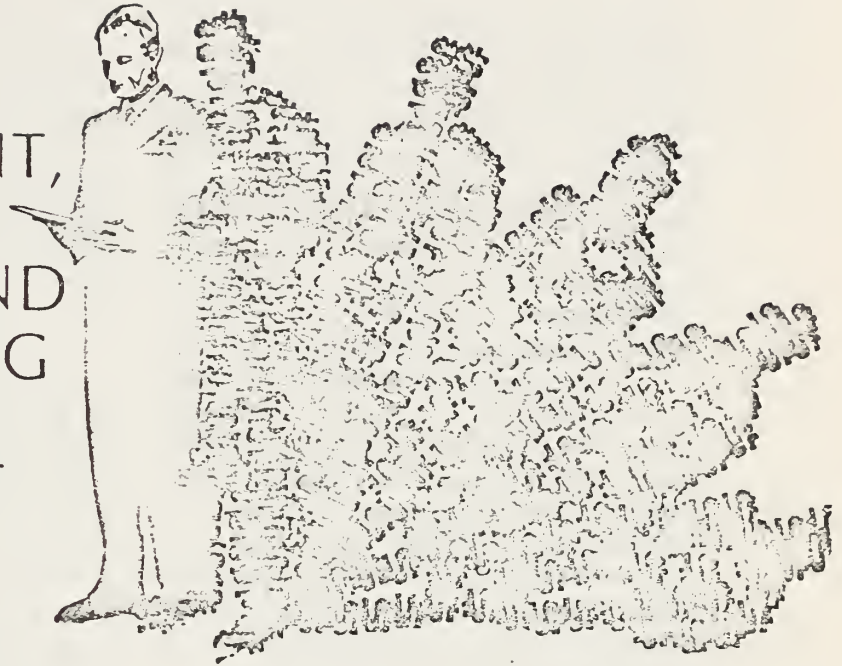
★ Reflects Reorganization; Total number of strategic bombers remains unchanged from FY 74.

DEPARTMENT OF DEFENSE BUDGET FINANCIAL SUMMARY

	<u>FY 1964</u>	<u>FY 1968</u>	<u>FY 1973</u>	<u>FY 1974</u>	<u>FY 1975</u>
DOD/MAP AS PERCENTAGE OF:					
Federal Budget (Outlays)	41.8%	42.5%	29.0%	27.9%	27.2%
Gross National Product	8.3%	9.4%	6.0%	5.9%	5.9%
Labor Force	7.9%	9.7%	5.6%	5.3%	5.2%
Net Public Spending	28.1%	29.2%	18.5%	17.8%	17.1%

RESOURCE MANAGEMENT, ECONOMIC ANALYSIS, AND DISCOUNTING IN THE DEPARTMENT OF DEFENSE

MAJOR RICHARD ZOCK



THERE was a time, in the not-too-distant past, when the education of a young man with intentions of following a military career was heavily weighted toward the study of engineering, geopolitics, and military history. Economics was not considered to be a terribly relevant discipline to the military aspirant. Defense budgets were smaller in absolute terms; budget allocations were made on the basis of "need"; economic analysis was not considered to be a vital military function; and scholarly pursuit in the field of economics was generally recommended for the student who planned a university teaching profession. The economist was perceived to be a theoretician, not a practitioner.

In a sense, economists of prior generations tended to agree with the military educators. Although they perceived the study of economic theory to be relevant to the defense establishment, it was seen to be applicable only in the broadest sense. Macroeconomics, the study of economic aggregates, dealt with the problems of allocation of scarce resources among the public and the private sectors.

The results of analyses at these lofty, theoretical levels certainly impacted upon the military in the size of its budgets, but most felt this was not an appropriate function to be performed by the military itself.

Microeconomics, a more specialized discipline often called "the theory of the firm," was relegated to problems of profit maximization. Since the military sold no products, generated no revenues, was not part of a market system, and charged no prices that could cover its costs, profit maximization did not appear to be a consideration for the military planner. Consequently the tools of microeconomics languished in the private sector of the economy with little or no emphasis placed upon them in the not-for-profit arena.

It is clear that we have come a long way since the era I have briefly described. With the introduction of large forces in-being during peacetime, the heavy demands on the nation's resources by the military arm, and the dramatic growth in demand for the public dollar by "human resources" programs, it became more evident that the military is only one of many competitors for public funds. A new emphasis was placed upon the capability to measure, in some meaningful way, the extra contribution to society emanating from additional expenditure on defense. By the same token, periods of austerity produced a very relevant question: Does society lose more total benefit if a dollar is cut from Defense than it does when the dollar is taken from Health, Education and Welfare? For one even sketchily trained in the discipline of economics, these questions strongly imply such terms as "marginal cost," "marginal revenue," and "marginal product"—a few of the analytical measures that make microeconomic tools applicable to some macroeconomic problems.

The economist's skills, whether applied to efficiency in the large or in the small, are generally directed toward the *resource* allocation dilemma. Although we concern ourselves with *budgetary* limitations, the stark reality of scar-

city applies, of course, to the productive *resources* at our disposal; the monetary constraints simply denominate those land, labor, capital, and technology limits in terms of dollars—and rather "rubbery" dollars at that during periods of inflation.

With the increasing awareness of scarcity, it would seem that to our "fly and fight" motto we might want to add "efficiently." Given that we have defined a specific role, mission, or objective, our mandate is clearly to fulfill that role or achieve that objective at *minimum cost*. Similarly, given the public funds (resources) entrusted to us, we have a vital responsibility to maximize the military returns from those inputs. It is the economics discipline that stresses the resources to be combined in various ways to achieve those elusive optima.

Our current system in the Department of Defense *does* reflect this relatively new microeconomic approach to resource employment. The Planning, Programming and Budgeting System (PPBS) has imposed a requirement that the marginal costs of and marginal returns from various alternative resource mixes be assessed and that decision-making in Defense emphasize cost and contribution at the margin. This is not to say we have succeeded in neatly quantifying the equivalent of the private sector's "marginal cost = marginal revenue" equation. Clearly we have not. Nor are any claims made that the quantifications which have been made in any way represent what the numbers *should* be. We do not yet have the capability in the military to talk meaningfully in terms of normative economics; we are, however, interjecting some rational economic analysis into the decision-making process.

With respect to the level at which economic analysis is to be performed, it would appear that the concept is now being pushed as far down in the organizational framework as possible. Originally stressed by then Deputy Secretary of Defense David Packard, the emphasis is now being placed on decentralized analysis and decision-making, with the responsibility for

resource management being passed down to ever lower levels of command. One might expect that explicit guidance of some sort would naturally accompany a metamorphosis such as this. Some guidance does in fact exist. In February 1969, the Assistant Secretary of Defense (Comptroller) issued an instruction establishing the policy that an economic analysis would be performed in support of certain proposed investments in the Department of Defense.¹ The publication was steeped in terms familiar to those who had acquainted themselves with PPBS; unfortunately, however, it stresses a concept that may have applicability only under certain conditions. The instruction set out as its purposes and objectives to:

1. identify systematically the benefits and costs associated with resource requirements . . . ;
2. highlight the key variables and the assumptions on which investment decisions are based and allow evaluation of these assumptions;
3. evaluate alternative methods of financing investments; and
4. compare the relative merits of various alternatives as an aid in selecting the best alternative.²

Clearly, these objectives are sound, rational, and highly worthy of pursuing. They represent an explicit statement of goals which, if attained, will lead to an efficient allocation of scarce resources among competing uses.

The DOD Instruction does not, however, address to any extent the dazzling array of analytical tools available to assist economic analysts in their pursuit of these objectives (nor do I mean to imply that it should). There is simply a listing of quantitative techniques, most of which are typically treated in depth in most statistics, economics, and management science courses.³ The instruction does, however, give particular emphasis to the tool of discounting and establishes rather specific guidelines for applying the method. The guidance includes

- a prescribed discount rate (10%);
- a table of discount factors (at 10%) which reflect an assumption that cost and/or savings flows will occur more or less continuously rather than in a "lumpy," once-per-period fashion;

—a brief rationale for the use of discounting of future cash flows.

The justification for use of present value factors in DOD-proposed investments is stated as follows:

Interest will be treated as a cost which is related to all Government expenditures, regardless of whether there are revenues or income by way of special taxes for a project to be self-supporting. This position is based on the premise that no public investment should be undertaken without considering the alternative use of the funds which it absorbs or displaces.

1. One way for the DOD to assure this result is to adopt in public investment evaluations an interest rate policy which reflects the private sector investment opportunities foregone. The discount rate reflects the preference for current and future money sacrifices that the public exhibits in non-government transactions.⁴

The reader is encouraged to digest this reasoning carefully, for it is sound and eminently rational, *so long as all the conditions stated therein are met*. Whether those conditions are all in fact being met is, however, subject to question.

The thesis stated above is an opportunity cost concept, which justly contends that the cost of using resources in one employment must be denominated in terms of the return sacrificed in diverting those resources from their next-best employment. It says that the cost of using resources in the public sector is what they could have returned by being productively applied in the private sector. This is undeniably true, a valid concept, *if there are in fact productive alternative employments of those resources in the private sector*.

If, however, there is less than full employment of resources in the nongovernment sphere, what is the opportunity cost? If industry is operating at 75 percent of capacity and nearly 6 percent of the labor force is unemployed, would those resources have been employed at all had it not been for the public sector? What is the cost to the private sector of hiring a man who would otherwise have been

unemployed? Is there an opportunity cost to the nongovernment sector when the military purchases vehicles from a firm that employs capacity which otherwise would have been idle?

Consider the fiscal 1972 and proposed fiscal 1973 federal budgets. They have been, admittedly, clearly stimulative in nature. The federal budget, as a vehicle for fiscal policy, is the means by which incremental government spending is achieved. In accord with Keynesian economic theory, federal expenditures can and should be used to create supplemental demand, promote spending, and generate greater income, employment, and resource utilization. This additional government expenditure is as much directed toward stimulation of the national economy as it is toward providing specific public goods and services. If this is the case, can it be said that the opportunity cost of resources diverted from the private sector is of the same magnitude as it would be if all resources were fully employed? One could even ask whether there is an opportunity cost at all.

To counter this reasoning, one line of argument might be to point out that idle capacity and unemployed resources exist only in a spotty fashion throughout the economy. While steel industry resources may be underemployed, the construction industry is simultaneously pressed to the limits of its capacity. Consequently, in such an example, an opportunity cost is imposed on the private sector by government construction projects, but the cost is considerably less (or possibly nonexistent) with respect to government demand for steel. To the extent that this is true, it would be difficult to argue for a *uniform* discount rate to be applied to all government investments. By the same token, a position that *insisted* on the application of a standard rate for purposes of simplicity (a good reason incidentally) would have to face up to the fact that in the *aggregate* there are unused resources. Consequently, the credibility of the opportunity cost rationale would be weakened.

One might contend, then, that even though

all these disparate resource utilization rates do exist, the Treasury still faces a positive interest rate in its long, intermediate, and short term borrowings in the capital market. It could be asserted that this rate is, in part, indicative of the private sector's required rate of return for the forsaken use of funds. True enough, but that required rate of return for virtually riskless lending is *not* the basis put forth in support of discounting government investments. If that were the rationale, the composite rate would be simple enough to calculate and *would not be 10 percent*.

One crucial problem emerges from any discussion of an appropriate social rate of discount. It is the problem of defining that rate and determining its composition. Welfare economics offers some help in this matter by contending that there are actually *two* measures which require quantification. The first is the *marginal social rate of time preference*, which reflects society's rational bias in favor of consumption sooner rather than later. The second is a *risk adjusted marginal social rate of return from investment*, which reflects the returns that the private sector sacrifices when resources are diverted to public projects. To oversimplify, one measure mirrors society's preference for a dollar's worth of consumption now rather than tomorrow; the other reflects the opportunity cost of what that dollar could have returned by productive employment between today and tomorrow. There are elements of both in the theoretically appropriate social rate of discount, but they *need not necessarily be the same rate*. Only if they do in fact coincide is it possible to aspire to a theoretical maximum or optimum state of welfare in every segment of the economy.

The above may appear to be a tiresome digression into the ethereal and not-so-relevant world of theory, but it is in fact a vital point to be recognized when considering the concept of discounting. It explains why the U.S. Treasury does in fact face a positive (and possibly rising) interest rate in its borrowing activities, while

simultaneously there may be a relatively low opportunity cost to the private sector of diverting resources to public projects (such as defense).

The significant point here is that when resources are in excess supply relative to the demand for them (unemployment), the use of an arbitrary discount rate for public investments may well understate the benefits to be derived from those investments in future years while at the same time overstating the costs today. The DoD use of a 10 percent discount rate for proposed investment projects may well be responsible for an unjustified bias against defense expenditures for "out year" benefits because of some simple, mathematically correct but misguided computations.

The situation is, of course, worsened by the requirement that *future* rates of resource unemployment clearly should be predicted and incorporated in any analysis of long-lived public investment proposals. Unfortunately, this may not be an attractive computational device, since it would require government agencies to make explicit any expectations of future resource unemployment—a disclosure which most likely would not be politically palatable.

Does the foregoing discourse argue against discounting of proposed DoD investments? The answer is "Not necessarily." Discounting is still a defensible tool for internal analytical purposes (within DoD). Its use would be to assist in recognizing the *timing* of cost and benefit streams and as a decision-making aid in our arraying of alternatives in some priority fashion. There is no good rationale for giving equal weight to equal dollar outlays, which differ significantly in their timing, so long as a social rate of time preference exists. The discounting thesis, however, should *not* be justified solely on the grounds of the opportunity cost imposed on the private sector. That cost is clearly variable and one which may differ dramatically between one industry and another, in some cases approaching zero. The opportunity cost thesis does not represent a totally credible *single* rationale for discounting in DoD. Were discounting defended more as an internal allocative device, its use would be more believable, and a good case could be built for its reduction to something below the current 10 percent rate.

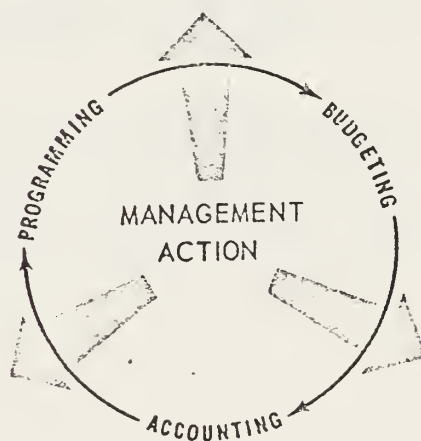
Air University Institute for Professional Development

Notes

1. Department of Defense Instruction 7041.3, "Economic Analysis of Proposed Department of Defense Investments," 28 February 1969.
2. *Ibid.*, I, A.

3. As this article was being written, the Defense Economic Analysis Council issued its definitive *Economic Analysis Handbook*, which does treat in some detail each of the analytical techniques listed in DODI 7041.3.
4. DODI 7041.3, V, D.

PRIME 69



THE FIRST
IN A SERIES
OF RESOURCE
MANAGEMENT
MONOGRAPHS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER) • JUNE 1968

PRIME 69 is another in a series of evolutionary developments to bring about a closer tie between programming, budgeting and accounting.

While PRIME 69 starts in all three Military Departments and the Defense Agencies on July 1, 1968, it is not a new effort. It has been underway in the Department of Defense for a number of years.

Mr. W. J. McNeil, the first DOD Comptroller, created many of the concepts we are now applying. The Five Year Defense Program as conceived by Mr. McNamara and Mr. Hitch gave us a meaningful and orderly foundation on which to build.

PRIME 69 will focus on operating costs. It will make possible a greater degree of participation in resource management by line managers at all levels . . . a major contribution to improved financial management.

PRIME 69, involving improved information and procedures pertaining to total operating costs, is designed to encourage users of resources at all levels to explore alternatives and to secure maximum mission accomplishment with available resources . . . in other words, to obtain the greatest military capability with the financial resources made available by our Government.

"I want every manager to think of his part of the total Government in terms of everything he owns, everything he owes and the full cost of doing every job in relation to the products resulting from these costs. I want him to think of minimal costs and cost reduction as profit. And I want him to think in terms of his profit as a result of how he uses all the resources entrusted to him. These goals cannot be fully achieved without sound financial management practices."

Lyndon B. Johnson
May 24, 1966

DEFICIENCIES IN FORMER SYSTEMS . . . NON-COMPARABILITY

Procedures in use prior to FY69 did not allow tracing of specific dollar amounts from initial programs, through the budget, to organization units charged with execution of the program.

Also, these same procedures contained basic inconsistencies in the way the Military Departments aggregated similar costs.

There were many such inconsistencies with obvious consequences for viewing totality of operations in the Department of Defense.

These inconsistencies created three problems:

■ NO ASSURANCE OPERATING BUDGET REFLECTED TOTAL PROGRAM

Budgets expressed in terms of "raw material" ... programs expressed in terms of "finished product"

■ NO ASSURANCE ACTUAL EXPENSES CONSISTENT WITH PLANNED EXPENSES

Accounting Systems not on the same wave length as Programs

■ NO ASSURANCE RESOURCES COMPATIBLE WITH CHANGING MISSIONS

How many times have we received additional responsibilities without associated resources?

INCOMPLETE INFORMATION

■ TOTAL COSTS NOT COLLECTED BY ORGANIZATIONAL UNITS

Much labor and materiel seen as "no cost" by users . . . operating manager not aware of resources used.

This is demonstrated by the following figures from one installation (dollars in millions):

	<u>TOTAL COSTS</u>	<u>COSTS NOW COLLECTED</u>	<u>% OF COSTS COLLECTED</u>
Labor	\$19.7	\$10.7	54%
Materiel	6.7	1.4	20%
Services	4.0	4.0	100%
Total	\$30.4	\$16.1	53%

. . . the Commander sees only 53% of his REAL COSTS

■ LACK OF MOTIVATION FOR TOTAL RESOURCE MANAGEMENT

Managers not given adequate management information pertaining to resources they receive on a "no cost" basis.

■ PLANNING DATA INADEQUATE

Operating experience artificially converted back into program terms.

and finally . . .

THE PRESENT SYSTEM DOES NOT PROVIDE FOR ACCRUAL ACCOUNTING IN ACCORDANCE WITH STATUTORY REQUIREMENTS

We were not meeting requirements of Public Law 863 and subsequent Presidential directives.

WHAT HAS BEEN DONE ?

Project PRIME has been designed to make financial management of operations consistent with the Five Year Defense Program.

The pieces of PRIME didn't just fall together

... many people from a variety of disciplines and from all areas and levels of management have been involved in the details to make sure that the end result is a usable program. Both the General Accounting Office and the Bureau of the Budget provided substantial counsel and assistance during development and testing phases.

In FY67, a test of the basic concept was conducted at three bases, one each in Army, Navy and Air Force.

In FY68, these tests were extended to major components in each of the Services, as indicated below:

Army.....SIXTH ARMY
Navy.....NAVAL AIR TRAINING COMMAND
Marines.....DEVELOPMENT & EDUCATION COMMAND
Air Force...AIR TRAINING COMMAND

Test results have been encouraging. Information produced by the system has already proven useful to management. Field commanders are pleased with the system.

WHAT DID THE TESTS SHOW ?

While the tests were primarily designed to install and demonstrate mechanics of the system, user benefits were numerous.

The visibility of total operating costs was most enlightening. Realization of total cost magnitude developed a high degree of sensitivity for more imaginative management.

And there were many examples of such actions taking place as a result of studying and analyzing PRIME output information.

When users were charged for vehicles, they reduced "on call" vehicles and frequently found half-ton trucks adequate replacements for larger ones previously used.

As program managers became more cognizant of actual operating costs being reported against programs, they resorted to more precise planning for efficient use of resources furnished.

Managers have identified unneeded military personnel spaces in excess of actual needs, and removal action has already started.

These examples will be multiplied many fold with Service-wide implementation.

In time, similiar examples throughout the entire Department of Defense should contribute to increased operational efficiency . . . without reducing our mission effectiveness.

THE SYSTEM FOR FY 1969

Thrust of PRIME 69 will be on operating costs.

Pieces of the whole are being brought together by a single operating budget.

The operating budget idea will extend all the way from the Office of the Secretary of Defense to the lowest level operating manager.

The operating budget will include both Military Personnel and O & M resources.

The system is a beginning . . . one of a series of continuing evolutionary improvements in Defense financial management.



PRIME 69 will start to bring the fragmented pieces of our financial management system into what might be described as a single focus on expenses of operation.

It will start to achieve consistency in programming, budgeting and accounting, so they will better fit together in a single compatible pattern.

The system allows planning in terms of programs, and provides for examination of operations in terms of organization units. To be assured that operations mesh with plans, we must match these two ways of looking at the total picture.

PRIME⁶⁹ OBJECTIVES

INTEGRATE PROGRAMMING BUDGETING & ACCOUNTING

Information in each of the systems will be totally consistent.

Program, budget and accounting data will be comparable.

FOCUS ON RESOURCES CONSUMED

Emphasis is on cost, and the ultimate goal is to charge organization units with 100% of their measurable expenses . . . all the labor, materiel and services they consume.

THE ACCOUNTING SYSTEM REQUIRES FOUR MAJOR CHANGES

1. PURIFY APPROPRIATIONS

Appropriations have been purified so that in general, operating resources are found in the operating appropriations, and capital resources in the procurement and construction appropriations. To associate all expense items with operating appropriations, thousands of consumables are being shifted from continuing appropriations to operations appropriations.

This has already been started, as part of the 1969 President's Budget, but will take several years for completion.

2. CHARGE MILITARY PERSONNEL COSTS

Military personnel costs are being charged to the using activity. To simplify accounting problems, standard charges will be made for each rank and grade. Organization units will budget and account for all military members.

3. EXTEND USE OF WORKING CAPITAL

Stock and industrial funds are being extended to cover consumables in the operations appropriations. Holding these items in suspense until time of consumption will permit association of costs with the using activity, at the time of actual use.



4. REVISE THE BASIC ACCOUNT STRUCTURE

This is a **BIG STEP**

The various pieces of our account structure will not only fit together . . . but will also
INTERLOCK

A UNIFORM ACCOUNT STRUCTURE provides a common basis for Military Departments and Defense Agencies to report expenses.

THE STRUCTURE CONSISTS OF 3 CATEGORIES:

1100 PROGRAM ELEMENTS

...WHO is consuming the resources?

F-111 squadrons
Base operations
Etc.

13 FUNCTIONAL CATEGORIES

...WHY are the resources being consumed?

Operation of utilities
Medical operations
Etc.

18 EXPENSE ELEMENTS

...WHAT kinds of resources are being consumed?

Military personnel
Civilian personnel
Etc.

It must be noted, however, that this structure is only a skeleton... each Department and Agency can build on this framework as required. Accounts may be added to meet local management needs.

THE ROADMAP

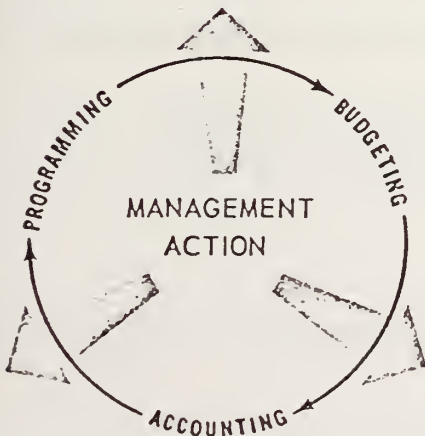
PROGRAM STRUCTURE

1. STRATEGIC FORCES
2. GENERAL PURPOSE
3. INTELLIGENCE
4. AIRLIFT & SEALIFT
5. GUARD & RESERVE
6. RESEARCH & DEVELOPMENT
7. SUPPLY & MAINTENANCE
8. TRAINING
9. ADMINISTRATION & ASSO-
CIATED ACTIVITIES
10. MILITARY ASSISTANCE

The programs in the Five Year Defense Program provide the road-map on which the entire system is structured.

The 1100 program elements mentioned on the previous page represent a more detailed breakdown of the major programs.

PRIME 69



PRIME 69 accounting techniques and associated reporting systems will provide greatly improved accounting information for internal management needs.

PRIME output information will also support external requirements in terms of existing appropriation structures.



WHILE
WE'VE REACHED
THE FIRST PLATEAU... THERE ARE
STILL OTHER TASKS TO BE ACCOMPLISHED

■ INTEGRATION OF PRIME 69 WITH OTHER SYSTEMS

Much work to be done . . . for instance, identifying operating expense data with strength data.

■ COMPLICATED APPROPRIATION STRUCTURE

Certain constraints remaining within the system must be bridged until the appropriation structure is modified.

■ IMPROVEMENT OF OUTPUT MEASURES

Meaningful and significant output measures are an evolutionary necessity for improved financial management.

■ USE OF NEW INFORMATION

Management will need new skills, understanding and sensitivity to utilize the new information readily . . . new initiatives in both training and education will help.

AND WHAT WILL PRIME⁶⁹ ACCOMPLISH?

As stated in the April 12, 1968
Comptroller General Opinion for
the Congress of the United States:

"... the proposed system would be useful in providing information and controls beyond those currently available in the management process, while still maintaining the extent and validity of data currently provided to the ... Congress."

PRIME 69 is designed to help the
operating manager, the man who
actually gets the job done.

The overall objective
is not only to permit
but to

ENCOURAGE MANAGERS TO USE THEIR RESOURCES TO
ATTAIN MAXIMUM OUTPUT FOR RESOURCES CONSUMED.

Managers will start to think in terms of trade-offs, such as the best balance between military personnel, civilian personnel and contract services. Today's system provides little incentive for this type of thinking.

With acquisition of experience, the trend could be toward
control of aggregates, rather than bits and pieces.

The new system should motivate managers to be more concerned about total use of resources ... both efficient and effective utilization. While today's managers do not control their total resources, PRIME 69 will provide more comprehensive resource information ... and perhaps lead to a greater degree of local control.

THE KEY WORD IS USEFULNESS

Many people throughout all components of the Department of Defense have been working on various details of the system

- ... developing techniques
- ... designing procedures
- ... testing
- ... evaluating
- ... making changes
- ... preparing instructions

and finally

putting the entire system into operation.

However . . .

the entire system will be worthwhile only
if managers learn to use the new tools.

SUCCESS OF THE SYSTEM DEPENDS ON YOU

THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

JAN 24 1973

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
DIRECTOR OF DEFENSE RESEARCH AND ENGINEERING
ASSISTANT SECRETARIES OF DEFENSE
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Program/Budget Review - Calendar Year 1973 Schedule

This memorandum expresses the schedule of the more significant actions of the Calendar Year 1973 Planning-Programming-Budgeting cycle. Actions outlined will be accomplished as prescribed by DoD Instruction 7045.7 or as modified by this memorandum.

The Planning cycle began with the publication and receipt of the Joint Strategic Objective Plan (JSOP), Volume I. The Planning cycle will be completed by February 23, 1973.

The Programming cycle will commence on the same date upon the issuance of the Planning and Programming Guidance Memorandum (PPGM). The Programming cycle will take us through the preparation of the Joint Force Memorandum (JFM), the Program Objective Memoranda (POMs), the review and analysis of these documents and the transmittal of tentative decisions on specific issue papers. The Programming cycle will be considered completed on August 17, 1973.

The Budgeting cycle will start with the initial issuance of Budget Guidance on August 17, 1973. This cycle will take us through the submission of the annual budget estimates, the review and evaluation of these estimates by the OSD and OMB staffs and the transmittal of budget decisions in the form of PBDs. Additionally, the Budget cycle will include the update of the FYDP on October 12, 1973, and will be considered completed after joint meetings with the JCS and the Service Secretaries on December 7, 1973, to resolve major budget issues.

Apart from the attached schedule, the OSD staff agencies will be provided with a precise time frame in which to identify issues resulting from their review of the JFM and the POMs. Additionally, the OSD staff will be provided with a budget schedule to insure timely budget actions and transmittal of decisions. The JCS, Military Departments and Staff Agencies will be provided copies of these additional schedules.

The attached schedule identifies specific actions and dates necessary to make up the total calendar, not only for the CY 1973 cycle, but also reflects actions that must commence to insure a solid foundation for our CY 1974 cycle. It is imperative that every effort be made by all concerned to meet the scheduled dates if we are to have a successful cycle. When specific actions are anticipated to be late, this information should be forwarded to the Secretary of Defense to evaluate the impact on the remainder of the schedule.


DEPUTY

Enclosure
Schedule

PROGRAM/BUDGET REVIEW SCHEDULE

Calendar Year 1973

te	Action	Agency	Action Date
1	Submit JSOP-Vol I (FY 75-82) - Strategy and Force Planning	J	May 22, 1972
2	Identify and issue Selected Analysis Topics	O	Dec 14, 1972
3	Submit JSOP-Vol II (FY 75-82) - Analysis and Force Tabulations	J	Dec 22, 1972
4	Submit Joint Research and Development Objectives Document (JRDOD)	J	Jan 15, 1973
5	Update Five Year Defense Program through FY 74 - FY 78	C	Jan 19, 1973
6	Submit Telecommunications Subsystem Data	C	Feb 5, 1973
7	Issue Planning and Programming Guidance Memorandum Note: Includes (1) Force Planning (2) Fiscal Levels (3) Materiel Support Planning Guidance (4) POM Guidance (5) SEA Support Guidance	O	Feb 23, 1973
8	Provide selected analyses	JC	Prior to Mar 30, 1973
9	Submit JSOP-Vol I (FY 76-83) Strategy and Force Planning (CY 74 Cycle)	J	May 1, 1973
10	Submit Joint Force Memorandum (JFM)	J	May 11, 1973
11	Submit Program Objective Memorandum (POM)	C	May 18, 1973
12	Update FYDP consistent with POM FY 75-82	C	May 18, 1973
13	Submit FYDP Telecommunications Subsystem Data	C	May 28, 1973
14	Transmit first Issue Paper to Components	O	Jun 12, 1973
15	Transmit first Issue Paper to SecDef	O	Jun 18, 1973
16	Transmit last Issue Paper to Components	O	Jul 6, 1973
17	Transmit last Issue Paper to SecDef	O	Jul 12, 1973

Action	Agency	Action Date
Issue Program Decision Memorandum (PDM)	O	Jul 26, 1973
Submit reclamation to PDMs	C	Aug 6, 1973
Major Issue Meetings	OC	Aug 8-14 '73
Issue amended PDMs	O	Aug 17, 1973
Issue Budget Guidance	O	Aug 17, 1973
Issue Defense Policy and Planning Guidance (CY 1974 Cycle)	O	Sep 3, 1973
Identify and issue Selected Analysis Topics (CY 1974 Cycle)	O	Sep 10, 1973
Issue Materiel Support Planning Guidance (CY 1974 Cycle)	O	Sep 14, 1973
Submit annual budget estimates and backup information	C	Oct 1, 1973
Start Budget Hearings	O	Oct 2, 1973
Update Five Year Defense Program	C	Oct 12, 1973
Submit comments on Defense Policy and Planning Guidance	JC	Oct 19, 1973
Submit comments on Materiel Support Planning Guidance	JC	Oct 22, 1973
Start issue of Program/Budget Decisions (PBDs)	O	Oct 22, 1973
Submit FYDP Telecommunications Subsystem Data	C	Oct 22, 1973
Provide comments (reclamation) on PBDs	C	Oct 29, 1973
Issue revised PBDs based on reclamation comments	O	Nov 30, 1973 to Dec 10, 1973
Conduct joint meetings with JCS and Service Secretaries to discuss major unresolved budget issues	O	Dec 7, 1973
Submit JSOP-Vol II (FY 76-82) Analysis and Force Tabulations (CY 1974 Cycle)	J	Dec 21, 1973
LEGEND: O = SecDef J = JCS C = Military Departments and Defense Agencies JC = JCS, Military Departments, Defense Agencies		

THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

26 MAR 1973

MEMORANDUM FOR Secretaries of the Military Departments
Chairman of the Joint Chiefs of Staff
Director of Defense Research and Engineering
Assistant Secretaries of Defense
Assistants to the Secretary of Defense
Directors of the Defense Agencies

SUBJECT: Planning and Programming Guidance for the FY 75-79 Defense Program

To provide overall guidance for program development, this Planning and Programming Guidance contains the following enclosures:

- I. Defense Policy and Force Planning Guidance (DPPG)
- II. Fiscal Guidance
- III. Materiel Support Planning Guidance (MSPG)
- IV. Guidance for POM Preparation

The purpose of the first enclosure is to provide in one document the definitive policy and force planning guidance on which Defense planning and programming are to be based. It provides those essential national security policies, established or confirmed by this Administration, which must guide our Defense program. It elaborates on those policies in force planning terms regarding the missions and tasks our forces must be prepared to perform and the assumptions to be made in sizing forces and allocating resources. This guidance is based upon Part II of JSOP FY 75-82, Volume I, as amended to reflect decisions made by the President or those which I have made. All Defense planning and programming from this date forward, whether dealing specifically with the FY 75-79 PPB cycle or not, is to be carried out in conformity with this guidance until I specifically amend or supersede it.

The purpose of the second enclosure, Fiscal Guidance, is to specify the allocation of the resources which we may realistically assume to be available for the Defense Program. Enclosure 2, in either Table 1 or Table 2, gives FY 75-79 Total Obligational Authority (TOA) for each

UPON REMOVAL OF ATTACHMENTS
THIS DOCUMENT BECOMES UNCLASSIFIED

OSD Control CCS X-1246
SA Control 73-930

Military Department and Defense Agency. Similarly, TOA limits are specified in Tables 1 and 2 for each Military Department and the relevant Defense Agencies in the categories of Strategic Offensive Forces, Intelligence and Security, Support to Other Nations, CHAMPUS, Hospital and total RDT&E. The Joint Forces Memorandum (JFM) and the Program Objective Memoranda (POMs) for FY 75-79 must present programs that conform to this guidance.

We would welcome any other program options the Military Departments, the Joint Chiefs of Staff and the Directors of Defense Agencies may propose at the Fiscal Guidance level. I suggest you submit, in a separate addendum to the JFM/POMs, a list of recommended additions and offsetting program reductions of approximately equal annual cost, together with your rationale for recommending them. The additions and the reductions may be proposed in any program category without regard to mission constraints and, in the case of the Joint Chiefs of Staff, without regard to the specific allocation (in the Fiscal Guidance) of constrained dollar totals among the Military Departments.

The purpose of the third enclosure, Materiel Support Planning Guidance, is to ensure, within the Fiscal Guidance constraints, a reasonable balance between combat forces and materiel support capability (particularly for operations) for U.S. forces and those of selected allies. It further requires an efficient allocation of resources between new procurement and maintenance of existing assets. Any DoD, Service or Defense Agency directives or instructions which are in conflict with the guidance contained in the MSPG should be revised to conform thereto as soon as possible. Pending any such needed revisions, where the MSPG conflicts with existing directives, the MSPG takes precedence.

The fourth enclosure, Guidance for POM Preparation, is designed to ensure that the POMs provide an adequate description of the proposed programs and forces, the rationale for proposing these forces and programs, the readiness of those forces and their capabilities to support our strategy, together with an assessment of the risks involved. It is essential that the Joint Chiefs of Staff, the Military Departments, and the Defense Agencies, who have the initiative to propose programs, explain clearly why they are recommending these programs in terms of this Planning and Programming Guidance.

The JFM/POMs should be prepared in consonance with the Southeast Asia Planning Guidance, which has been distributed separately. These assumptions have been redesigned to ensure that our plans are consistent and adequate to provide the President the options he needs.

I have asked the Assistant Secretary of Defense (Systems Analysis) to provide detailed instructions regarding preparation of the Program Objective Memoranda and to work with you in developing meaningful measures of force capabilities and analyses to help illuminate issues for decision.

E.L.R.

Enclosures

cc: Commanders of the Unified and Specified Commands (Enclosures I and III)

FISCAL GUIDANCE

The Fiscal Guidance will serve as the financial basis for the five-year programs to be developed by the Joint Chiefs of Staff, the Military Departments and the Defense Agencies. These programs will be submitted to the Secretary of Defense in the form of a Joint Forces Memorandum (JFM) and Program Objective Memoranda (POMs). Both the JFM and the POMs will conform to the specific guidance and fiscal levels outlined below, and will make no change to the FY 74 budget and the program on which it is based.

I would welcome any other program options the Military Departments, the Joint Chiefs of Staff and the Defense Agencies may propose at the Fiscal Guidance level. I suggest you submit, in a separate addendum to the JF/POMs, a list of recommended additions and offsetting program reductions of approximately equal annual cost, together with your rationale for recommending them. The additions and the reductions may be proposed in any program categories without regard to mission constraints and, in the case of the Joint Chiefs of Staff, without regard to the specific allocation (in Table 1 below) of constrained dollar totals among the Military Departments.

The Joint Chiefs of Staff and the Military Departments will prepare JF/POMs within the FY 75-79 TOA level specified in Table 1. Defense Agencies will submit POMs within the FY 75-79 TOA levels specified in Table 2. This Fiscal Guidance is based on the dollar levels in the February 2, 1973 FYDP update with certain adjustments.

Tables 1 and 2 also present selected program constraints. No changes in Intelligence and Security from the TOA figures specified in Tables 1 and 2 should be made. Strategic Offensive programs, Support to Other Nations, Research, Development, Test and Evaluation (RDT&E) appropriations, the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), and the hospital modernization program should not be reduced below the levels appearing in Tables 1 and 2.

Strategic Offensive Programs TOA should not be reduced in the JFM and POMs until the outcome of Phase II of the Strategic Arms Limitation Talks is clearer or until a major review of our strategic posture is concluded. The specified TOA level for Support to Other Nations is to make sure that adequate funds are available in FY 75-79 to achieve the objectives of the Nixon Doctrine and to implement the Vietnam and Laos ceasefires. Lower limits are placed on RDT&E appropriations to eliminate the decline in total DoD RDT&E levels programmed in the February 2, FYDP. Lower limits are placed on CHAMPUS because I believe that FY 75-79 CHAMPUS costs are likely to be lower than the corresponding FY 75-79 levels programmed in the FYDP. Lower limits have been placed on the DoD hospital modernization program to protect Secretary of Defense initiatives in that area.

The JFM and Military Departments POMs are not to exceed total TOA targets by more than \$50 million in any one year and by more than \$50 million over five years. Also, the JFM and Military Department POMs should meet selected program TOA constraints within (1) minus \$50 million in any one year and minus \$50 million over five years in the case of Strategic Offensive Programs and RDT&E constraints, (2) plus or minus \$50 million in any one year and plus or minus \$50 million over five years the case of Intelligence and Security constraints, and (3) minus 1% in any one year and minus 1% of the FY 75-79 average in the case of Support to Other Nations, CHAMPUS and the hospital modernization program constraints.

Defense Agency POMs are not to exceed total TOA targets by more than 1% in any one year and by more than 1% of the FY 75-79 average. Defense Agency selected program constraints are to be met within plus or minus 1% in any one year and plus or minus 1% of the FY 75-79 average.

The FY 75-79 JFM and POM programs should be based on the assumption that DoD TOA in constant dollars will remain fixed at the FY 79 level in succeeding years.

Proposed base closures should not be planned to take effect before January 1, 1974.

Military Department programs may include proposals for increased Defense Family Housing expenditures over the FY 75-79 period. However, any additional Defense Family Housing FY 75-79 TOA should be compensated for by offsetting reductions within each Military Department's TOA targets.

JFM/POMs should be based on planning that does not include the Volunteer Service funds that are held in contingency in the February 2, FYDP and the impact of future pay raises after January 1973.

The JFM/POMs should include resources, starting in FY 75, (1) to support the requirement to pay rent for the use of government-owned facilities as required by Public Law 92-313, Public Buildings Amendment Act of 1972 and (2) to cover the impact of changes in the value of U.S. dollar that have occurred since preparation of the FY 74 President's Budget.

Table 1

FISCAL GUIDANCE - MILITARY DEPARTMENTS
(TOA FYDP \$ Billions)

	<u>FY 74</u>	<u>FY 75</u>	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78</u>	<u>FY 79</u>
<u>Department of the Army</u>						
TOA*						
Intelligence & Security***						
Export to Other Nations**						
US**						
Intl Investment**						
E*						
<u>Department of the Navy</u>						
TOA*						
Strategic Offensive**						
Intelligence & Security***						
Export to Other Nations**						
US**						
Intl Investment**						
E*						
<u>Department of the Air Force</u>						
TOA*						
Strategic Offensive**						
Intelligence & Security***						
Export to Other Nations**						
US**						
Intl Investment**						
E*						

DOA/POMs not to exceed amounts shown except within the limits described elsewhere in Fiscal Guidance.

DOA/POMs not to reduce amounts shown except within the limits described elsewhere in Fiscal Guidance.

DOA/POMs not to reduce or increase amounts shown for Intelligence & Security, except within the limits described elsewhere in the Fiscal Guidance.

Table 2

FISCAL GUIDANCE - DEFENSE AGENCIES a/
(TOA FYDP \$ Billions)

	<u>FY 74</u>	<u>FY 75</u>	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78</u>	<u>FY 79</u>
<u>Defense Advanced Research Projects Agency</u>						
Total TOA*						
<u>Defense Civil Preparedness Agency</u>						
Total TOA*						
<u>Defense Communications Agency</u>						
Total TOA*						
<u>Defense Contract Audit Agency</u>						
Total TOA*						
<u>Defense Intelligence Agency</u>						
Total TOA* and Intelligence & Security***						
<u>Defense Investigative Service</u>						
Total TOA*						
<u>Defense Mapping Agency</u>						
Total TOA*						
Intelligence & Security***						
<u>Defense Nuclear Agency</u>						
Total TOA*						
<u>Defense Security Assistance Agency</u>						
Total TOA* and SON**						
<u>Defense Supply Agency</u>						
Total TOA*						
<u>Joint Chiefs of Staff</u>						
Total TOA*						
<u>National Security Agency</u>						
Total TOA*						
Intelligence & Security***						
<u>Office of the Secretary of Defense</u>						
Total TOA*						

a/ Guidance for Defense Agencies excludes Military Personnel Pay.
b/ Less than

*JFM/POMs not to exceed amounts shown except within the limits described elsewhere in the Fiscal Guidance.

**JFM/POMs not to reduce amounts shown except within the limits described elsewhere in the Fiscal Guidance.

***JFM/POMs not to reduce or increase amounts shown for Intelligence & Security Programs, except within the limits described elsewhere in the Fiscal Guidance.

GUIDANCE FOR POM PREPARATION

I. SUMMARY

A. Strategy Assessment

The ability of the POM program to support the Defense Policy and Planning Guidance at Fiscal Guidance Levels. Specific shortcomings should be noted. Discuss major program changes from the February 73 FYDP, and discuss the balance between operating forces, force modernization, materiel support, and readiness.

B. Summary Force Tables

C. Manpower by Fiscal Guidance Category

D. Cost Data

1. TOA by Fiscal Guidance Category

2. TOA by Individual Service or Agency Appropriation

II. FORCE TABLES BY FISCAL GUIDANCE CATEGORY

II. ACTIVE AND RESERVE FORCE CAPABILITIES FOR FY 75 AND FY 79 (FY 75 AND FY 82 FOR THE NAVY) INCLUDING, BUT NOT LIMITED TO THE FOLLOWING CATEGORIES WHERE APPLICABLE

A. Readiness Projections (including deployment plans and Reserve Components Plans)

B. Peacetime Deployments

C. Reinforcement Capabilities

D. Combat Activity Levels Where Appropriate (e.g., Sorties Per Day)

E. Combat Sustaining Capabilities (e.g., Combat Days of Equipment, Ammunition)

IV. OTHER PROGRAM INFORMATION

V. MAJOR ITEM PROCUREMENT INFORMATION

VI. LOGISTICS, BASE OPERATING SUPPORT, AND MILITARY CONSTRUCTION INFORMATION

- A. Materiel Support Inventories
- B. Depot Supply and Maintenance Programs
- C. Secondary Item War Reserve Programs
- D. Repairable Programs
- E. Materiel Storage Requirements
- F. Base Operating Support Programs
- G. Military Construction Programs

VII. MANPOWER DATA

- A. Manpower Requirements
- B. Personnel Planning Data
- C. Training Data
- D. Manpower Cost Factors

VIII. OPTIONAL ADDENDUM LIST OF PROGRAM ADDITIONS AND OFFSETTING REDUCTIONS

- A. The Addendum List Together With the Rationale for the Proposed Additions and Offsetting Reductions
- B. An Assessment of Their Impact on the Ability to Implement the Defense Policy and Planning Guidance



OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

April 3, 1973

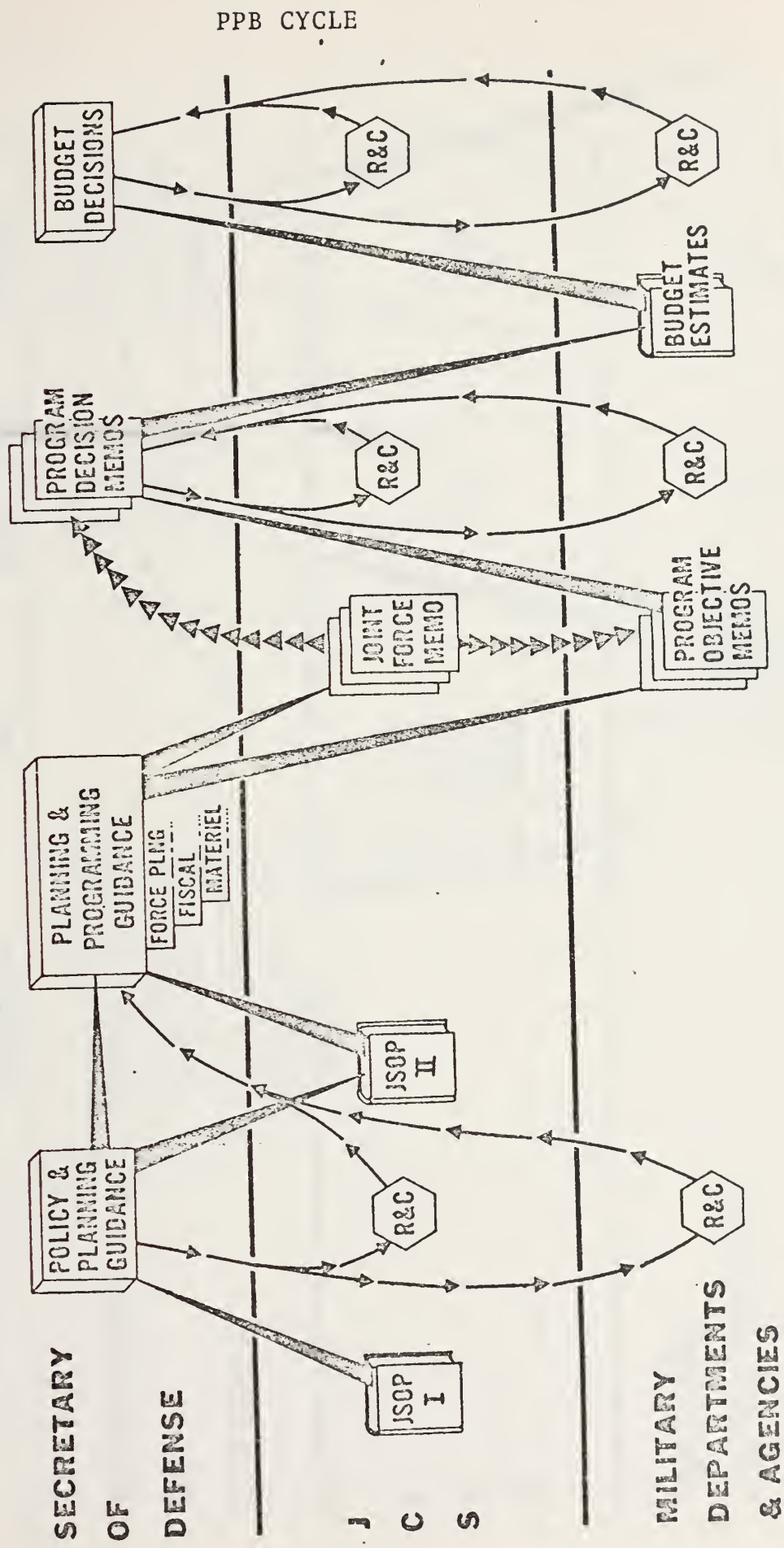
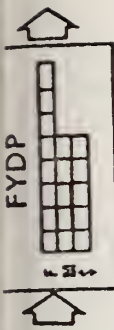
FISCAL CATEGORIES FOR POM PREPARATION

- I. Strategic Forces
 - Strategic Offensive Forces
 - Strategic Defensive Forces
 - Strategic Control and Surveillance Forces
- II. General Purpose Forces
 - Land Forces
 - Tactical Air Forces
 - Naval Forces
 - ASW and Fleet Air Defense Forces
 - Amphibious Forces
 - Naval Support Forces
 - Mobility Forces
- III. Other Programs
 - Intelligence and Security
 - Centrally Managed Communications
 - Research and Development
 - Support to Other Nations
 - Military Assistance Program and Foreign Credit Sales
 - Military Assistance Service Funded
 - Procurement of Allies' War Reserve Stocks
 - Geophysical Activities
- IV. General Support
 - Base Operating Support
 - Medical Support
 - Personnel Support
 - Training
 - Individual Training
 - Force Support Training
 - Command
 - Logistics
- V. Miscellaneous Costs
 - Retired Pay
 - Family Housing Including Homeowners Assistance Program
 - Undistributed Contingencies (OSD)

(For Manpower Only -- No Costs Shown)

- Individuals
 - Transients
 - Patients and Prisoners
 - Trainees, Students, and Cadets

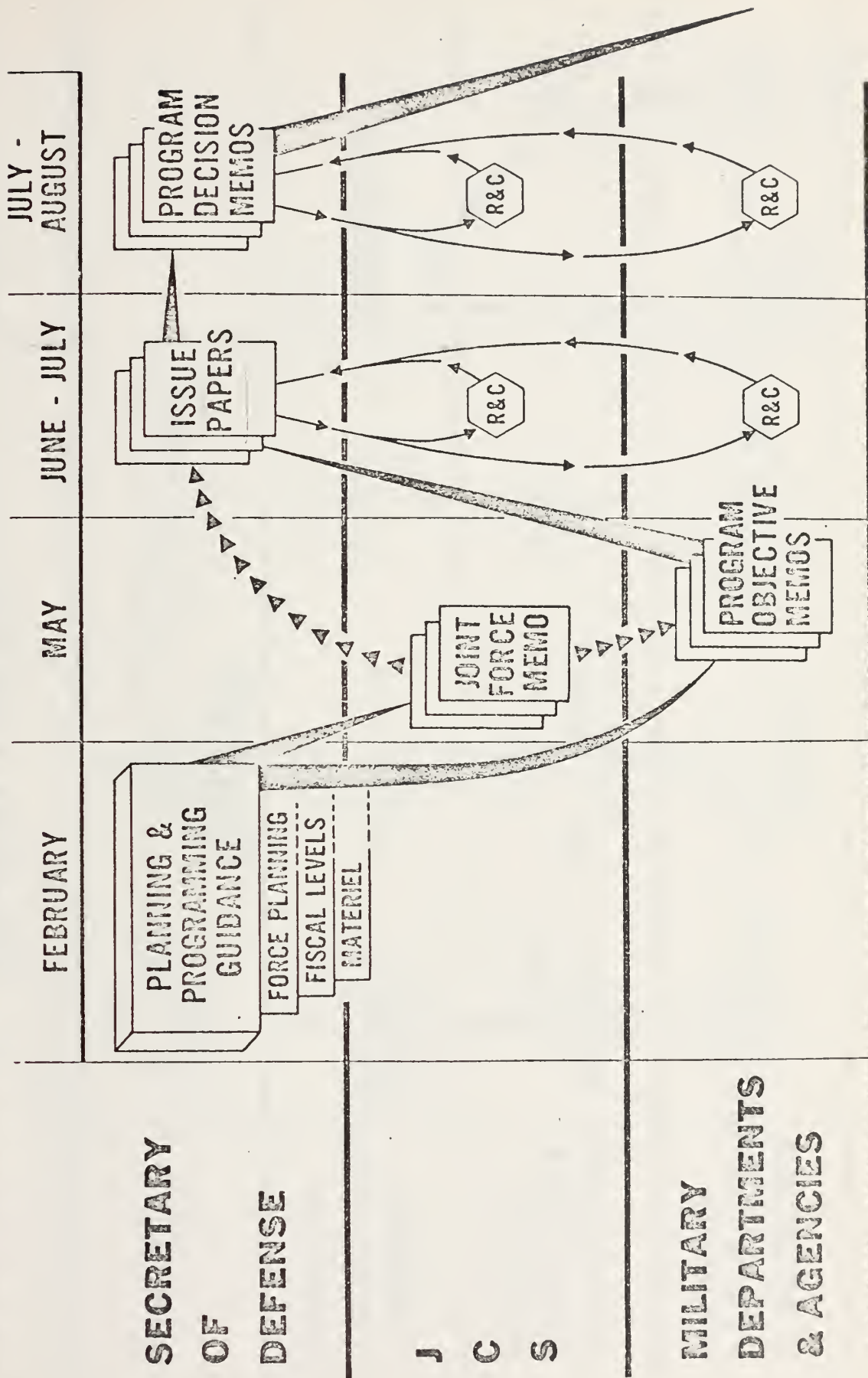
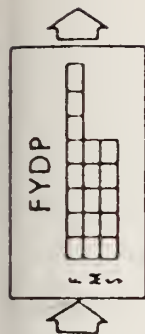
1973 PLANNING * PROGRAMMING * BUDGETING



R&C = Review & Comment

JSOP = Joint Strategic Objectives Plan

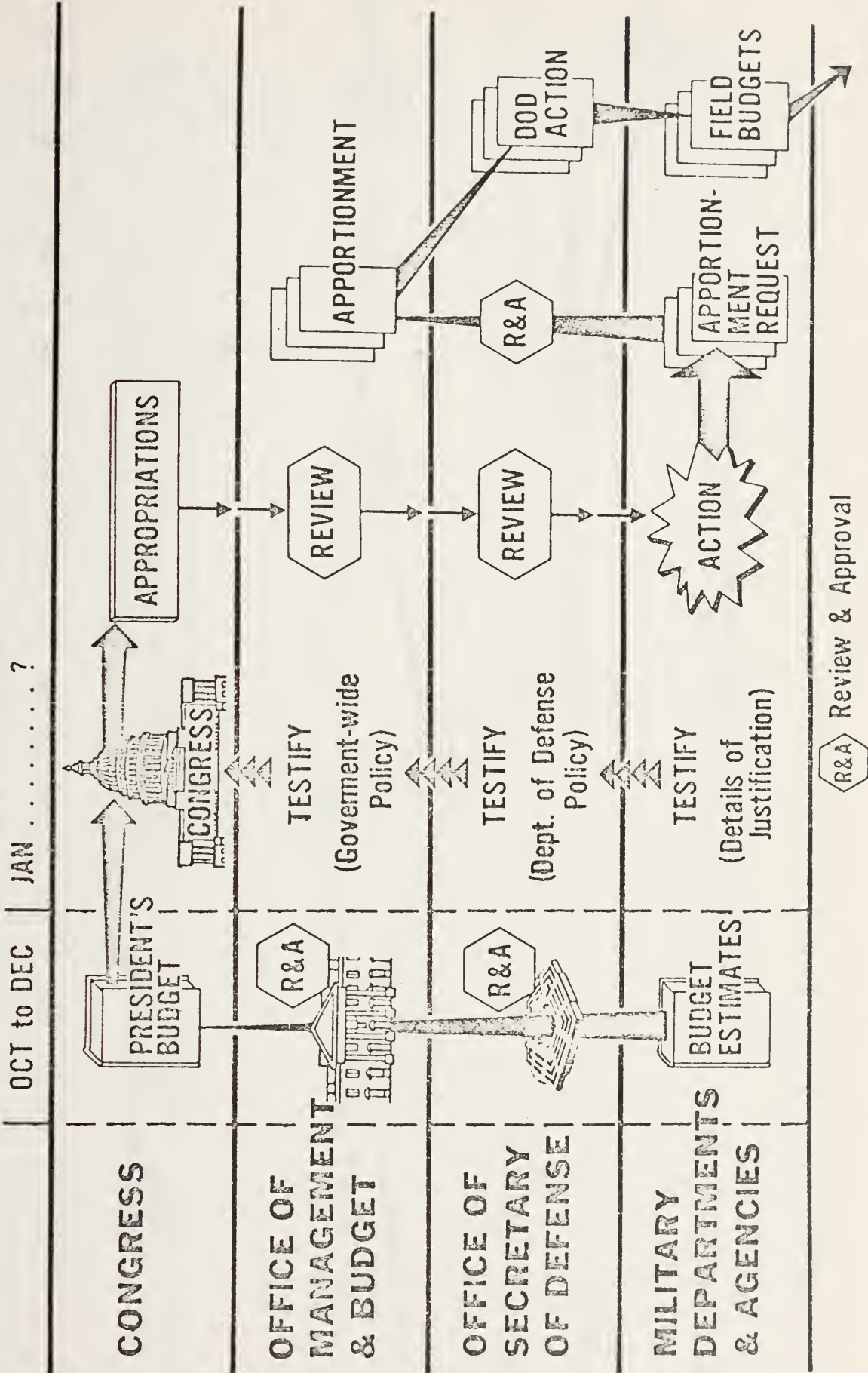
PPB - PROGRAMMING PHASE



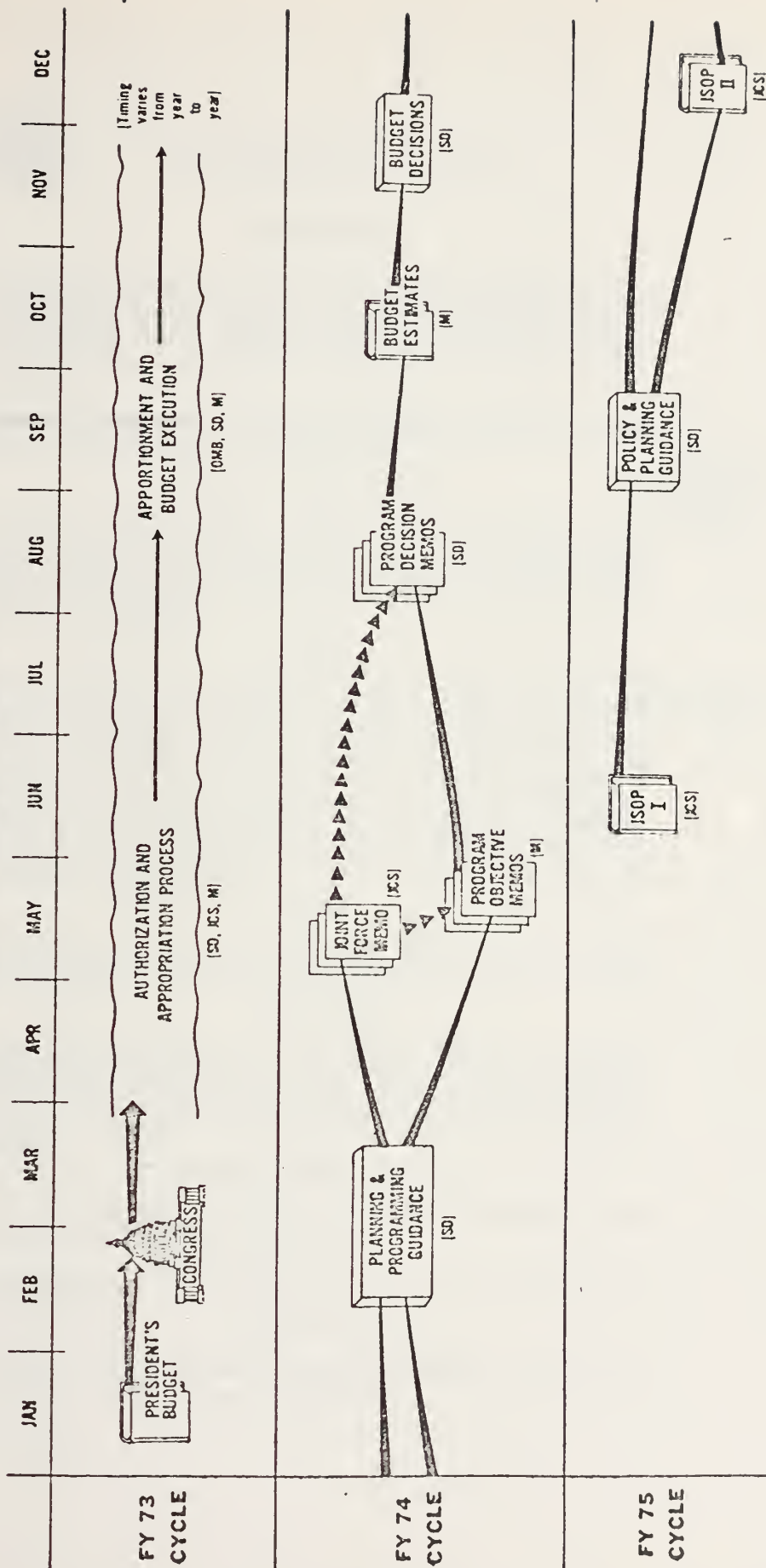
R&C = REVIEW & COMMENT

PPB CYCLE

BUDGET PHASE



PPB CYCLES in CY 1972





Public Law 93-155
93rd Congress, H. R. 9286
November 16, 1973

An Act

To authorize appropriations during the fiscal year 1974 for procurement of aircraft, missiles, naval vessels, tracked combat vehicles, torpedoes, and other weapons, and research, development, test and evaluation for the Armed Forces, and to prescribe the authorized personnel strength for each active duty component and of the Selected Reserve of each reserve component of the Armed Forces, and the military training student loads, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Department of
Defense Appro-
priation
Authorization
Act, 1974.

TITLE I—PROCUREMENT

SEC. 101. Funds are hereby authorized to be appropriated during the fiscal year 1974 for the use of the Armed Forces of the United States for procurement of aircraft, missiles, naval vessels, tracked combat vehicles, torpedoes, and other weapons as authorized by law, in amounts as follows:

Aircraft

For aircraft: for the Army, \$168,000,000; for the Navy and the Marine Corps, \$2,912,600,000 of which amount not to exceed ^{87 STAT. 605} \$693,100,000 shall be available for an F-14 aircraft program of not ^{87 STAT. 606} less than 50 aircraft, subject to no increase being made in the ceiling price of \$325,000,000 specified in the fiscal year 1974 F-14 contract between the Navy and the primary airframe contractor, except in accordance with the terms of such contract, including the clause providing for normal technical changes; for the Air Force, \$2,964,635,000: *Provided*, That \$158,800,000 of the funds available to the Air Force for aircraft procurement shall be available only for the procurement of twelve F-111F aircraft.

Missiles

For missiles: for the Army, \$565,000,000; for the Navy, \$680,200,000; for the Marine Corps, \$32,300,000; for the Air Force, \$1,519,600,000.

Naval Vessels

For naval vessels: for the Navy, \$3,737,000,000, of which sum \$79,000,000 shall be only for the long lead-time items for the DLGN-41 and DLGN-42. The contracts for the DLGN-41 and the DLGN-42 shall be entered into as soon as practicable unless the President fully advises the Congress that their construction is not in the national interest.

Tracked Combat Vehicles

For tracked combat vehicles: for the Army, \$193,300,000; for the Marine Corps, \$46,200,000.

Torpedoes

For torpedoes and related support equipment: for the Navy, \$203,300,000.

Other Weapons

For other weapons: for the Army, \$44,700,000; for the Navy, \$37,100,000; for the Marine Corps, \$700,000.

87 STAT. 606 87 STAT. 607	Sec. 201. Funds are hereby authorized to be appropriated during the fiscal year 1974 for the use of the Armed Forces of the United States for research, development, test, and evaluation, as authorized by law, in amounts as follows: For the Army, \$1,983,758,000; for the Navy (including the Marine Corps), \$2,670,749,000, of which amount \$60,900,000 is authorized only for the Surface Effect Ships program; For the Air Force, \$3,034,800,000; and For the Defense Agencies, \$505,578,000, of which \$24,600,000 is authorized for the activities of the Director of Test and Evaluation, Defense.	President shall include in each such report a statement of the mission of each such unit ordered to active duty, an evaluation of such unit's performance of that mission, where each such unit is being deployed at the time of the report, and such other information regarding each unit as the President deems appropriate." (b) The amendment made by subsection (a) of this section shall be effective with respect to any unit of the Ready Reserve ordered to active duty on or after the date of enactment of this Act.
87 STAT. 606 87 STAT. 607	TITLE III—ACTIVE FORCES Sec. 301. (a) For the fiscal year beginning July 1, 1973, and ending June 30, 1974, each component of the Armed Forces is authorized an end strength for active duty personnel as follows: (1) The Army, 803,806; (2) The Navy, 566,320; (3) The Marine Corps, 196,419; (4) The Air Force, 666,357. (b) The end strength for active duty personnel prescribed in subsection (a) of this section for the fiscal year ending June 30, 1974, shall be reduced by 43,000. Such reduction shall be apportioned among the Army, Navy, Marine Corps, and Air Force in such manner as the Secretary of Defense shall prescribe, except that in applying any portion of such reduction to any military department, the reduction shall be applied to the maximum extent practicable to the support forces of such military department. The Secretary of Defense shall report to the Congress within 60 days after the date of enactment of this Act on the manner in which this reduction is to be apportioned among the military departments and among the mission categories described in the Military Manpower Requirements Report. This report shall include the rationale for each reduction. (c) The Committee on Armed Services of the House shall report to the House by April 1, 1974, a detailed and independent study on the advisability of maintaining our present military commitment to Europe in view of the current economic and military situation in Europe.	President shall include in each such report a statement of the mission of each such unit ordered to active duty, an evaluation of such unit's performance of that mission, where each such unit is being deployed at the time of the report, and such other information regarding each unit as the President deems appropriate." (b) The amendment made by subsection (a) of this section shall be effective with respect to any unit of the Ready Reserve ordered to active duty on or after the date of enactment of this Act.
Report to House of Representatives.	Sec. 302. In computing the authorized end strength for the active duty personnel of any component of the Armed Forces for any fiscal year, there shall not be included in the computation members of the Ready Reserve of such component ordered to active duty under the provisions of section 673 of title 10, United States Code, members of the Army National Guard or members of the Air National Guard called into Federal service under section 3500 or 8500, as the case may be, of title 10, United States Code, members of the militia of any State called into Federal service under chapter 15 of title 10, United States Code, or persons ordered to active duty for training. Sec. 303. (a) Section 673 of title 10, United States Code, is amended by adding at the end thereof a new subsection as follows: "(d) Whenever one or more units of the Ready Reserve are ordered to active duty, the President shall, on the first day of the second fiscal year quarter immediately following the quarter in which the first unit or units are ordered to active duty and on the first day of each suc-	President shall include in each such report a statement of the mission of each such unit ordered to active duty, an evaluation of such unit's performance of that mission, where each such unit is being deployed at the time of the report, and such other information regarding each unit as the President deems appropriate." (b) The amendment made by subsection (a) of this section shall be effective with respect to any unit of the Ready Reserve ordered to active duty on or after the date of enactment of this Act.
Exceptions.	Sec. 304. 28; 72 Stat. 1441. 70A Stat. 199, 525. 70A Stat. 15; 82 Stat. 841. 10 USC 331.	President shall include in each such report a statement of the mission of each such unit ordered to active duty, an evaluation of such unit's performance of that mission, where each such unit is being deployed at the time of the report, and such other information regarding each unit as the President deems appropriate." (b) The amendment made by subsection (a) of this section shall be effective with respect to any unit of the Ready Reserve ordered to active duty on or after the date of enactment of this Act.
Report to House of Representatives.	TITLE IV—RESERVE FORCES Sec. 401. For the fiscal year beginning July 1, 1973, and ending June 30, 1974, the Selected Reserve of each Reserve component of the Armed Forces will be programmed to attain an average strength of not less than the following: (1) The Army National Guard of the United States, 379,144; (2) The Army Reserve, 232,591; (3) The Naval Reserve, 119,231; (4) The Marine Corps Reserve, 39,735; (5) The Air National Guard of the United States, 92,991; (6) The Air Force Reserve, 49,773; (7) The Coast Guard Reserve, 11,300. Sec. 402. The average strength prescribed by section 401 of this title for the Selected Reserve of any Reserve component shall be proportionately reduced by (1) the total authorized strength of units organized to serve as units of the Selected Reserve of such component which are on active duty (other than for training) at any time during the fiscal year, and (2) the total number of individual members not in units organized to serve as units of the Selected Reserve of such component who are on active duty (other than for training or for unsatisfactory participation in training) without their consent at any time during the fiscal year. Whenever such units or such individual members are released from active duty during any fiscal year, the average strength for such fiscal year for the Selected Reserve of such Reserve component shall be proportionately increased by the total authorized strength of such units and by the total number of such individual members.	President shall include in each such report a statement of the mission of each such unit ordered to active duty, an evaluation of such unit's performance of that mission, where each such unit is being deployed at the time of the report, and such other information regarding each unit as the President deems appropriate." (b) The amendment made by subsection (a) of this section shall be effective with respect to any unit of the Ready Reserve ordered to active duty on or after the date of enactment of this Act.
Report to House of Representatives.	TITLE V—MILITARY TRAINING STUDENT LOADS Sec. 501. (a) For the fiscal year beginning July 1, 1973, and ending June 30, 1974, each component of the Armed Forces is authorized an average military training student load as follows: (1) The Army, 89,200; (2) The Navy, 75,800; (3) The Marine Corps, 28,000; (4) The Air Force, 55,100; (5) The Army National Guard of the United States, 19,100; (6) The Army Reserve, 59,900; (7) The Naval Reserve, 17,400; (8) The Marine Corps Reserve, 6,700; (9) The Air National Guard of the United States, 4,600; (10) The Air Force Reserve, 24,300; (b) The average military training student loads for the Army, the Navy, the Marine Corps, and the Air Force prescribed in subsection (a) of this section for the fiscal year ending June 30, 1974, shall be	President shall include in each such report a statement of the mission of each such unit ordered to active duty, an evaluation of such unit's performance of that mission, where each such unit is being deployed at the time of the report, and such other information regarding each unit as the President deems appropriate." (b) The amendment made by subsection (a) of this section shall be effective with respect to any unit of the Ready Reserve ordered to active duty on or after the date of enactment of this Act.

TITLE VI—ANTI-BALLISTIC MISSILE PROGRAM— LIMITATIONS ON DEPLOYMENT

SEC. 601. None of the funds authorized by this or any other Act may be obligated or expended for the purpose of continuing or initiating deployment of an anti-ballistic-missile system at any site except Grand Forks Air Force Base, Grand Forks, North Dakota. Nothing in this section shall be construed as a limitation on the obligation or expenditure of funds in connection with the dismantling of anti-ballistic missile system sites or the cancellation of work at Whiteman Air Force Base, Knob Noster, Missouri; Francis E. Warren Air Force Base, Cheyenne, Wyoming; and Mahanstrom Air Force Base, Great Falls, Montana.

Grand Forks
AFB, continu-
ation.
Whiteman,
Warren and
Mahanstrom
AFB, dismant-
ling and can-
cellation.

TITLE VII—STUDY COMMISSION

DEFENSE MANPOWER COMMISSION

SEC. 701. (a) There is hereby established a commission to be known as the Defense Manpower Commission (hereinafter in this title referred to as the "Commission").

(b) The Commission shall be composed of seven members appointed as follows:

- (1) One member to be appointed by the majority leader of the Senate;
- (2) One member to be appointed by the minority leader of the Senate;
- (3) One member to be appointed by the majority leader of the House of Representatives;
- (4) One member to be appointed by the minority leader of the House of Representatives; and
- (5) Three members to be appointed by the President.

No person may be appointed to the Commission who is a civilian officer or employee of the Federal Government; and no person may be appointed who is serving on active duty with the Armed Forces of the United States.

(c) The Commission shall elect a Chairman and Vice Chairman from among its members.

(d) Four members of the Commission shall constitute a quorum. Any vacancy in the Commission shall not affect its powers, but shall be filled in the same manner in which the original appointment was made.

DUTIES OF THE COMMISSION

SEC. 702. It shall be the duty of the Commission to conduct a comprehensive study and investigation of the overall manpower requirements of the Department of Defense on both a short-term and long-term basis with a view to determining what the manpower requirements are currently and will likely be over the next ten years, and how manpower can be more effectively utilized in the Department of Defense. In carrying out such study and investigation the Commission shall give special consideration to—

- (1) the effectiveness with which civilian and active duty personnel are utilized, particularly in headquarters staffing and in the number of support forces in relation to combat forces;

Manpower
requirements,
study and
investigation.

(3) the distribution of grades and pay rates among each armed force and
(4) the cost-effectiveness and manpower utilization of the
United States Armed Forces as compared with the armed forces
of other countries;

(5) whether the military retirement system is consistent with
overall Department of Defense requirements and is comparable
to civilian retirement plans;

(6) the methods and techniques used to attract and recruit
personnel for the armed forces, and whether such methods and
techniques might be improved or new and more effective ones
utilized;

(7) the implications for the ability of the armed forces to fulfill
their mission as a result of the change in the socio-economic com-
position of military enlistees since the enactment of new recruit-
ing policies provided for in Public Law 92-129 and the
implications for national policies of this change in the composi-
tion of the armed forces; and

(8) such other matters related to manpower as the Commission
deems pertinent to the study and investigation authorized by this
title.

POWERS OF THE COMMISSION

SEC. 703. (a) The Commission or, on the authorization of the Com-
mission, any subcommittee or member thereof may, for the purpose of
carrying out the provisions of this title, hold such hearings and sit
and act at such times and places as the Commission or such subcom-
mittee or member may deem advisable.

(b) The Commission is authorized to secure directly from any
executive department, bureau, agency, board, commission, office, inde-
pendent establishment, or instrumentality information, suggestions,
estimates, and statistics for the purposes of this title. Each such
department, bureau, agency, board, commission, office, establishment,
or instrumentality is authorized and directed to furnish such infor-
mation, suggestions, estimates, and statistics directly to the Commis-
sion, upon request made by the Chairman or Vice Chairman.

(c) The Commission shall establish appropriate measures to insure
the safeguarding of all classified information submitted to or inspected
by it in carrying out its duties under this title.

COMPENSATION OF THE COMMISSION

SEC. 704. Each member of the Commission shall receive an amount
equal to the daily rate paid a GS-18 under the General Schedule con-
tained in section 5332 of title 5, United States Code (including travel-
time), during which he is engaged in the actual performance of his
duties as a member of the Commission. Members of the Commission
shall be reimbursed for travel, subsistence, and other necessary
expenses incurred by them in the performance of their duties.

STAFF OF THE COMMISSION

SEC. 705. (a) The Commission shall appoint an Executive Director
and such other personnel as it deems advisable without regard to the
provisions of title 5, United States Code, governing appointments in
the competitive service, and shall fix the compensation of such per-
sonnel without regard to the provisions of chapter 51 and subchapter
III of chapter 53 of such title relating to classification and General

5 USC 101
et seq.
5 USC 5301.
5 USC 5331.

5 USC 5332
note.

note.

(b) The Commission is authorized to procure the services of experts and consultants in accordance with section 3109 of title 5, United States Code, but at rates not to exceed the daily rate paid a person occupying a position at GS-18.

(c) The Commission is authorized to enter into contracts with public agencies, private firms, institutions, and individuals for the conduct of research and surveys, the preparation of reports, and other activities necessary to the discharge of its duties.

Contract authority.

ADMINISTRATIVE SERVICES

Sec. 706. The Administrator of the General Services Administration shall provide administrative services for the Commission on a reimbursable basis.

REPORTS OF THE COMMISSION

Sec. 707. (a) The Commission shall, from time to time, submit interim reports to the Congress and to the President regarding its duties under this title, and shall include in any such reports its findings together with such recommendations for administrative or legislative action as the Commission considers advisable.

(b) The Commission shall submit its final report to the Congress and to the President not more than twenty-four months after the appointment of the Commission. Such report shall include all interim reports and the final findings and recommendations of the Commission.

(c) The Commission shall cease to exist sixty days after the submission of its final report.

Reports to Congress and President.

Termination date.

AUTHORIZATION FOR APPROPRIATIONS

Sec. 708. There are authorized to be appropriated to the Commission a sum not to exceed \$2,500,000 to carry out the provisions of this title.

TITLE VIII—GENERAL PROVISIONS

Sec. 801. Subsection (a) (1) of section 401 of Public Law 89-367, approved March 15, 1966 (80 Stat. 37), as amended, is hereby amended to read as follows:

"(a) (1) Not to exceed \$1,126,000,000 of the funds authorized for appropriation for the use of the Armed Forces of the United States under this or any other Act are authorized to be made available for their stated purposes to support: (A) Vietnamese and other free world forces in support of Vietnamese forces, (B) local forces in Laos; and for related costs, during the fiscal year 1974 on such terms and conditions as the Secretary of Defense may determine. None of the funds appropriated to or for the use of the Armed Forces of the United States may be used for the purpose of paying any overseas allowance, per diem allowance, or any other addition to the regular base pay of any person serving with the free world forces in South Vietnam if the amount of such payment would be greater than the amount of special pay authorized to be paid, for an equivalent period of service, to members of the Armed Forces of the United States (under section 310 of title 37, United States Code) serving in Vietnam or in any other hostile fire area, except for continuation of payments of such additions to regular base pay provided in agreements executed prior to July 1, 1970. Nothing in clause (A) of the first sentence of this paragraph shall be construed as authorizing the use of any such funds to support

Funds, availability for Vietnamese and Laotian forces.

77 Stat. 216;
79 Stat. 547.

Cambodia and Laos.

orderly withdrawal or disengagement of United States forces from Southeast Asia, or to aid in the release of Americans held as prisoners of war."

C-5A funds, restrictions.

Sec. 802. (a) The amount of \$28,400,000 authorized to be appropriated by this Act for the development and procurement of the C-5A aircraft may be expended only for the reasonable and allocable direct and indirect costs incurred by the prime airframe contractor under a contract entered into with the United States to carry out the C-5A aircraft program. No part of such amount may be used for—

(1) direct costs of any other contract or activity of the prime contractor;

(2) profit on any materials, supplies, or services which are sold or transferred between any division, subsidiary, or affiliate of the prime contractor under the common control of the prime contractor and such division, subsidiary, or affiliate;

(3) bid and proposal costs, independent research and development costs, and the cost of other similar unsponsored technical effort; or

(4) depreciation and amortization costs in excess of \$1,700,000 on property, plant, or equipment.

Any of the costs referred to in the preceding sentence which would otherwise be allocable to any work funded by such \$28,400,000 may not be allocated to other portions of the C-5A aircraft contract or to any other contract with the United States, but payments to C-5A aircraft subcontractors shall not be subject to the restriction referred to in such sentence.

(b) Any payments from such \$28,400,000 shall be made to the prime contractor through a special bank account from which such contractor may withdraw funds only after a request containing a detailed justification of the amount requested has been submitted to and approved by the contracting officer for the United States. All payments made from such special bank account shall be audited by the Defense Contract Audit Agency of the Department of Defense and, on a quarterly basis, by the General Accounting Office. The Comptroller (General) shall submit to the Congress not more than thirty days after the close of each quarter a report on the audit for such quarter performed by the General Accounting Office pursuant to this subsection.

(c) The restrictions and controls provided for in this section with respect to the \$28,400,000 referred to in subsections (a) and (b) of this section shall be in addition to such other restrictions and controls as may be prescribed by the Secretary of Defense or the Secretary of the Air Force.

Sec. 803. (a) Chapter 4 of title 10, United States Code, is amended by adding the following new sections after section 137 and inserting corresponding items in the chapter analysis:

76 Stat. 519.

"§ 138. Secretary of Defense: Annual authorization of appropriations for armed forces

"(a) No funds may be appropriated for any fiscal year to or for the use of any armed force or obligated or expended for—

"(1) procurement of aircraft, missiles, or naval vessels;

"(2) any research, development, test, or evaluation, or procurement or production related thereto;

"(3) procurement of tracked combat vehicles;

"(4) procurement of other weapons; or

Report to Congress.

Special bank account.

(3) procurement of small torpedoes and related items.

of any component of the armed forces.

of any component of the armed forces.

Selected Reserve personnel strength.

Active-duty personnel strength.

Civilian personnel strength.

Report to Congress.

Student military training.

unless funds therefor have been specifically authorized by law.
“(b) Congress shall authorize the personnel strength of the Selected Reserve of each reserve component of the armed forces. No funds may be appropriated for any fiscal year for the pay and allowances of the members of any reserve component of the armed forces unless the personnel strength of the Selected Reserve of that reserve component for that fiscal year has been authorized by law.

“(c) (1) Congress shall authorize the end strength as of the end of each fiscal year for active-duty personnel for each component of the armed forces. No funds may be appropriated for any fiscal year to or for the use of the active-duty personnel of any component of the armed forces unless the end strength for active-duty personnel of that component for that fiscal year has been authorized by law.

“(2) Congress shall authorize the end strength as of the end of each fiscal year for civilian personnel for each component of the Department of Defense. No funds may be appropriated for any fiscal year to or for the use of the civilian personnel of any component of the Department of Defense unless the end strength for civilian personnel of that component for that fiscal year has been authorized by law.

“(3) The Secretary of Defense shall submit to Congress a written report, not later than February 15 of each fiscal year, recommending the annual active duty end strength level for each component of the armed forces for the next fiscal year and the annual civilian personnel end strength level for each component of the Department of Defense for the next fiscal year, and shall include in that report justification for the strength levels recommended and an explanation of the relationship between the personnel strength levels recommended for that fiscal year and the national security policies of the United States in effect at the time. The justification and explanation shall specify in detail for all military forces, including each land force division, carrier and other major combatant vessel, air wing, and other comparable unit, the—
“(A) unit mission and capability;
“(B) strategy which the unit supports; and
“(C) area of deployment and illustrative areas of potential deployment, including a description of any United States commitment to defend such areas.

It shall also include a detailed discussion of (i) the manpower required for support and overhead functions within the armed forces and the Department of Defense, (ii) the relationship of the manpower required for support and overhead functions to the primary combat missions and support policies, and (iii) the manpower required to be stationed or assigned to duty in foreign countries and aboard vessels located outside the territorial limits of the United States, its territories, and possessions.

“(d) (1) Congress shall authorize the average military training student loads for each component of the armed forces. Such authorization is not required for unit or crew training student loads, but is required for student loads for the following individual training categories—
“(A) recruit and specialized training;
“(B) flight training;
“(C) professional training in military and civilian institutions; and
“(D) officer acquisition training.

No funds may be appropriated for any fiscal year for training military personnel in the training categories described in clauses (A)-(D)

report, not later than March 1 of each fiscal year, recommending the average student load for each category of training for each component of the armed forces for the next three fiscal years, and shall include in that report justification for, and explanation of, the average student loads recommended.

“§ 139. Secretary of Defense: weapons development and procurement schedules for armed forces; reports; supplemental reports

“(a) The Secretary of Defense shall submit to Congress each calendar year, at the same time the President submits the budget to Congress under section 11 of title 31, a written report regarding development and procurement schedules for each weapon system for which fund authorization is required by section 135(a) of this title, and for which any funds for procurement are requested in that budget. The report shall include data on operational testing and evaluation for each weapon system for which funds for procurement are requested (other than funds requested only for the procurement of units for operational testing and evaluation, or long lead-time items, or both). A weapon system shall also be included in the annual report required under this subsection in each year thereafter until procurement of that system has been completed or terminated, or the Secretary of Defense certifies, in writing, that such inclusion would not serve any useful purpose and gives his reasons therefor.

“(b) The Secretary of Defense shall submit a supplemental report to Congress not less than thirty, or more than sixty, days before the award of any contract, or the exercise of any option in a contract, for the procurement of any such weapon system (other than procurement of units for operational testing and evaluation, or long lead-time items, or both), unless—

“(1) the contractor or contractors for that system have not yet been selected and the Secretary of Defense determines that the submission of that report would adversely affect the source selection process and notifies Congress in writing, prior to such award, of that determination, stating his reasons therefor; or

“(2) the Secretary of Defense determines that the submission of that report would otherwise adversely affect the vital security interests of the United States and notifies Congress in writing of that determination at least thirty days prior to the award, stating his reasons therefor.

“(c) Any report required to be submitted under subsection (a) or (b) shall include detailed and summarized information with respect to each weapon system covered, and specifically include, but not be limited to—

“(1) the development schedule, including estimated annual costs until development is completed;

“(2) the planned procurement schedule, including the best estimate of the Secretary of Defense of the annual costs and units to be procured until procurement is completed; and

“(3) to the extent required by the second sentence of subsection (a), the result of all operational testing and evaluation up to the time of the submission of the report, or, if operational testing and evaluation has not been conducted, a statement of the reasons therefor and the results of such other testing and evaluation as has been conducted.

“(d) In the case of any weapon system for which procurement funds have not been previously requested and for which funds are first

Report to Congress.
64 Stat. 832;
84 Stat. 1169.
Ante, p. 7.

fiscal year has been submitted to Congress, the same reporting requirement shall apply to the same extent as if funds had been requested for that system in that budget."

(b) The following laws are repealed:

(1) section 412 of the Act of August 10, 1959, Public Law 86-419 (73 Stat. 322), as amended by section 2 of the Act of April 27, 1962, Public Law 87-436 (76 Stat. 55); section 610 of the Act of November 7, 1963, Public Law 88-174 (77 Stat. 329); section 304 of the Act of June 11, 1965, Public Law 89-37 (79 Stat. 128); section 6 of the Act of December 1, 1967, Public Law 90-168 (81 Stat. 526); section 405 of the Act of November 19, 1969, Public Law 91-121 (83 Stat. 207); sections 505 and 509 of the Act of October 7, 1970, Public Law 91-441 (84 Stat. 912, 913); section 701 of the Act of September 28, 1971, Public Law 92-129 (85 Stat. 362); and sections 302 and 601 of the Act of September 26, 1972, Public Law 92-436 (86 Stat. 736, 739); and (2) section 506 of the Act of November 17, 1971, Public Law 92-156 (85 Stat. 429).

SEC. 804. Section 3(b) of Public Law 92-425 (86 Stat. 711) is amended by—

(1) striking out in the first sentence "before the first anniversary of that date" and inserting in lieu thereof "at any time within eighteen months after such date"; and

(2) striking out in the second sentence "before the first anniversary of" and inserting in lieu thereof "at any time within eighteen months after".

SEC. 805. Notwithstanding any other provision of law, no funds authorized to be appropriated by this or any other Act may be obligated or expended for the purpose of carrying out directly or indirectly any economic or military assistance for or on behalf of North Vietnam unless specifically authorized by Act of Congress enacted after the date of the enactment of this Act.

SEC. 806. Notwithstanding any other provision of law, upon enactment of this Act, no funds heretofore or hereafter appropriated may be obligated or expended to finance the involvement of United States military forces in hostilities in or over or from off the shores of North Vietnam, South Vietnam, Laos, or Cambodia, unless specifically authorized hereafter by the Congress.

SEC. 807. (a) The first section of the Act entitled "An Act to authorize the making, amendment, and modification of contracts to facilitate the national defense"; approved August 28, 1958 (72 Stat. 972; 50 U.S.C. 1431), is amended by adding at the end thereof the following: "The authority conferred by this section may not be utilized to obligate the United States in any amount in excess of \$25,000,000 unless the Committees on Armed Services of the Senate and the House of Representatives have been notified in writing of such proposed obligation and 60 days of continuous session of Congress have expired following the date on which such notice was transmitted to such Committees and neither House of Congress has adopted, within such 60-day period, a resolution disapproving such order."

(b) (1) The second sentence of section 302 of the Defense Production Act of 1950 (50 App. U.S.C. 2092) is amended by inserting "(1)"

immediately after the word "and" and inserting "from the period at the end of such session and inserting in lieu thereof an amount in excess of \$25,000,000 unless the Committees on Armed Services of the Senate and the House of Representatives have been notified in writing of such proposed loan and 60 days of continuous session of Congress have expired following the date on which such notice was transmitted to such Committees and neither House of Congress has adopted, within such 60-day period, a resolution disapproving such loan."

(2) Section 302 of such Act is further amended by adding at the end thereof a new sentence as follows: "For purposes of this section, the continuity of a session of Congress is broken only by an adjournment of the Congress sine die, and the days on which either House is not in session because of an adjournment of more than 3 days to a day certain are excluded in the computation of such 60-day period."

(c) Section 2307 of title 10, United States Code, is amended by adding at the end thereof a new subsection as follows:

"(d) Payments under subsection (a) in the case of any contract, other than partial, progress, or other payments specifically provided for in such contract at the time such contract was initially entered into, may not exceed \$25,000,000 unless the Committees on Armed Services of the Senate and the House of Representatives have been notified in writing of such proposed payments and 60 days of continuous session of Congress have expired following the date on which such notice was transmitted to such Committees and neither House of Congress has adopted, within such 60-day period, a resolution disapproving such payments. For purposes of this section, the continuity of a session of Congress is broken only by an adjournment of the Congress sine die, and the days on which either House is not in session because of an adjournment of more than 3 days to a day certain are excluded in the computation of such 60-day period."

(d) (1) Section 18(a) of the Military Selective Service Act (50 U.S.C. App. 468) is amended by inserting before the period at the end of the first sentence a comma and the following: "except that no order which requires payments thereunder in excess of \$25,000,000 shall be placed with any person, unless the Committees on Armed Services of the Senate and the House of Representatives have been notified in writing of such proposed order and 60 days of continuous session of Congress have expired following the date on which such notice was transmitted to such Committees and neither House of Congress has adopted, within such 60-day period, a resolution disapproving such order."

(2) Section 18(a) of such Act is further amended by inserting after the first sentence thereof a new sentence as follows: "For purposes of the preceding sentence, the continuity of a session of Congress is broken only by an adjournment of the Congress sine die, and the days on which either House is not in session because of an adjournment of more than 3 days to a day certain are excluded in the computation of such 60-day period."

(e) The amendments made by this section shall not affect the carrying out of any contract, loan, guarantee, commitment, or other obligation entered into prior to the date of enactment of this section.

SEC. 808. None of the funds authorized for appropriation to the Department of Defense pursuant to this Act shall be obligated under a contract entered into after the date of enactment of this Act under any multiyear procurement as defined in section 1-322 of the Armed Services Procurement Regulations (as in effect on September 26, 1972) where the cancellation ceiling for such procurement is in excess of \$5,000,000.

Repeal.
10 USC 133
note.

10 USC 1448
note.

North Vietnam,
assistance,
prohibition.

North Vietnam,
South
Vietnam, Laos,
Cambodia, in-
military in-
volvement,
prohibition.

64 Stat. 801.

Ante, p. 10.

72 Stat. 967.

62 Stat. 625.

32 CFR 1.322.

"CONGRESSIONAL DECLARATION OF PURPOSE AND POLICY

"SEC. 2. In enacting this Act, it is the intent of Congress (1) to provide a comprehensive and continuous program for the future safety and for the defense of the United States by providing adequate measures whereby an essential nucleus of Government-owned industrial plants and an industrial reserve of machine tools and other industrial manufacturing equipment may be assured for immediate use to supply the needs of the Armed Forces in time of national emergency or in anticipation thereof; (2) that such Government-owned plants and such reserve shall not exceed in number or kind the minimum requirements for immediate use in time of national emergency, and that any such items which shall become excess to such requirements shall be disposed of as expeditiously as possible; (3) that to the maximum extent practicable, reliance will be placed upon private industry for support of defense production; and (4) that machine tools and other industrial manufacturing equipment may be held in plant equipment packages or in a general reserve to maintain a high state of readiness for production of critical items of defense materiel, to provide production capacity not available in private industry for defense materiel, or to assist private industry in time of national disaster.

"DEFINITIONS

"SEC. 3. As used in this Act—

"(1) The term 'Secretary' means Secretary of Defense.
 "(2) The term 'Defense Industrial Reserve' means (A) a general reserve of industrial manufacturing equipment, including machine tools, selected by the Secretary of Defense for retention for national defense or for other emergency use; (B) those industrial plants and installations held by and under the control of the Department of Defense in active or inactive status, including Government-owned/ Government-operated plants and installations and Government-owned/contractor-operated plants and installations which are retained for use in their entirety, or in part, for production of military weapons systems, munitions, components, or supplies; (C) those industrial plants and installations under the control of the Secretary which are not required for the immediate need of any department or agency of the Government and which should be sold, leased, or otherwise disposed of.

"(3) The term 'plant equipment package' means a complement of active and idle machine tools and other industrial manufacturing equipment held by and under the control of the Department of Defense and approved by the Secretary for retention to produce particular defense materiel or defense supporting items at a specific level of output in the event of emergency.

"DUTIES OF THE SECRETARY

"SEC. 4. To execute the policy set forth in this Act, the Secretary is authorized and directed to—

"(1) determine which industrial plants and installations (including machine tools and other industrial manufacturing equipment) should become a part of the defense industrial reserve;

"(2) designate what excess industrial property shall be

"(3) establish general policies and provide for the transportation, handling, care, storage, protection, maintenance, repair, rebuilding, utilization, recording, leasing and security of such property;

"(4) direct the transfer without reimbursement of such property to other Government agencies with the consent of such agencies;

"(5) direct the leasing of any of such property to designated lessees;

"(6) authorize the disposition in accordance with existing law of any of such property when in the opinion of the Secretary such property is no longer needed by the Department of Defense; and

"(7) authorize and regulate the lending of any such property to any nonprofit educational institution or training school whenever (A) the program proposed by such institution or school for the use of such property will contribute materially to national defense, and (B) such institution or school shall by agreement make such provision as the Secretary shall deem satisfactory for the proper maintenance and care of such property and for its return, without expense to the Government, upon request of the Secretary.

"REPORTS TO CONGRESS

"SEC. 5. The Secretary shall submit to the Congress on or before April 1 of each year a report detailing the action taken under this Act and containing such other pertinent information regarding the status of the defense industrial reserve as will enable the Congress to evaluate the administration of such reserve and the necessity or desirability for any legislative action regarding such reserve.

"AUTHORIZATION FOR APPROPRIATIONS

"SEC. 6. There are authorized to be appropriated such sums as the Congress may from time to time determine to be necessary to enable the Secretary to carry out the provisions of this Act."

SEC. 810. (a) The Secretary of Defense is authorized and directed to carry out a comprehensive study and investigation to determine the relative status of the Air Force Reserve and the Air National Guard of the United States. In carrying out such study and investigation the Secretary shall quantitatively measure the effects on full costs and on combat capability and readiness, as well as enumerate the military and other advantages and disadvantages of at least the following alternatives: (1) merging the Air Force Reserve into the Air National Guard structure; (2) merging the Air National Guard into the Air Force Reserve structure; and (3) retaining both the Air Force Reserve and the Air National Guard. Such study shall also consider and give equal weight to the modernization needs of the Air National Guard and the Air Force Reserve, including: (1) aircraft; (2) ground equipment; (3) facilities; (4) communication, and (5) other pertinent needs. It shall also consider the related problems of recruiting, training and retaining sufficient manpower of needed quality to man the authorized units.

(b) The Secretary of Defense shall submit to the President and the Congress a detailed report of such study and investigation not later than January 31, 1975. The Secretary shall include in such report a complete evaluation of each of the alternatives specified in subsection

Study and investigation.

Report to President and Congress.

Sec. 811. The Congress finds that the Department of Defense, which will use at its present rate of consumption, an estimated twelve billion gallons of petroleum products in 1973, is one of the largest single consumers of petroleum products in the world, and that a reduction in consumption of such products by the Department of Defense would aid materially in meeting the energy shortages which the United States now faces. It is, therefore, declared to be the sense of the Congress that the Department of Defense should implement a 10 per centum reduction of its consumption of petroleum products except where such a reduction would adversely affect the national security or essential training exercises.

Sec. 812. (a) The Congress finds that in order to achieve a more equitable sharing of the costs and expenses arising from commitments and obligations under the North Atlantic Treaty, the President should seek, through appropriate bilateral and multilateral arrangements, payments sufficient in amount to offset fully any balance-of-payment deficit incurred by the United States during the fiscal year ending June 30, 1974, as the result of the deployment of forces in Europe in fulfillment of the treaty commitments and obligations of the United States. This balance-of-payment deficit shall be determined by the Secretary of Commerce in consultation with the Secretary of Defense and the Comptroller General of the United States.

(b) In the event that the North Atlantic Treaty Organization members (other than the United States) fail to offset the net balance-of-payment deficit described in subsection (a) prior to the expiration of eighteen months after the date of enactment of this section, no funds may be expended after the expiration of twenty-four months following the date of enactment of this section for the purpose of maintaining or supporting United States forces in Europe in any number greater than a number equal to the average monthly number of United States forces assigned to duty in Europe during the fiscal year ending June 30, 1974, reduced by a percentage figure equal to the percentage figure by which such balance-of-payment deficit during such fiscal year was not offset.

(c) The Congress further finds (1) that the other members of the North Atlantic Treaty Organization should, in order to achieve a more equitable sharing of the cost burden under the treaty, substantially increase their contributions to assist the United States in meeting those added budgeting expenses incurred as the result of maintaining and supporting United States forces in Europe, including, but not limited to, wages paid to local personnel by the United States, recurring expenses incurred in connection with the maintenance and operation of real property, maintenance facilities, supply depots, cold storage facilities, communications systems, and standby operations, and nonrecurring expenses such as the construction and rehabilitation of plants and facilities; (2) that the amount paid by the United States in connection with the North Atlantic Treaty infrastructure program should be reduced to a more equitable amount; and (3) that the President should seek, through appropriate bilateral and multilateral arrangements, a substantial reduction of the amounts paid by the United States in connection with those matters described in (1) and (2) above.

any period thereafter, a written report informing the Congress of the action.

Sec. 813. (a) No funds authorized to be appropriated by this Act may be obligated under a contract entered into by the Department of Defense after the date of the enactment of this Act for procurement of goods which are other than American goods unless, under regulations of the Secretary of Defense and subject to the determinations and exceptions contained in title III of the Act of March 3, 1933, as amended (47 Stat. 1520; 41 U.S.C. 10a, 10b), popularly known as the Buy American Act, there is adequate consideration given to—

(1) the bids or proposals of firms located in labor surplus areas in the United States as designated by the Department of Labor which have offered to furnish American goods;

(2) the bids or proposals of small business firms in the United States which have offered to furnish American goods;

(3) the bids or proposals of all other firms in the United States which have offered to furnish American goods;

(4) the United States balance of payments;

(5) the cost of shipping goods which are other than American goods; and

(6) any duty, tariff or surcharge which may enter into the cost of using goods which are other than American goods.

(b) For purposes of this section, the term "goods which are other than American goods" means (1) an end product which has not been mined, produced, or manufactured in the United States, or (2) an end product manufactured in the United States but the cost of the components thereof which are not mined, produced, or manufactured in the United States exceeds the cost of components mined, produced, or manufactured in the United States.

Sec. 814. (a) Chapter 157 of title 10, United States Code, is amended by adding at the end thereof a new section as follows:

§ 2635. Medical emergency helicopter transportation assistance and limitation of individual liability

"(a) The Secretary of Defense is authorized to assist the Department of Health, Education, and Welfare and the Department of Transportation in providing medical emergency helicopter transportation services to civilians. Any resources provided under this section shall be under such terms and conditions, including reimbursement, as the Secretary of Defense deems appropriate and shall be subject to the following specific limitations:

"(1) Assistance may be provided only in areas where military units able to provide such assistance are regularly assigned, and military units shall not be transferred from one area to another for the purpose of providing such assistance.

"(2) Assistance may be provided only to the extent that it does not interfere with the performance of the military mission.

"(3) The provision of assistance shall not cause any increase in funds required for the operation of the Department of Defense.

"(b) No individual (or his estate) who is authorized by the Department of Defense to perform services under a program established pursuant to subsection (a), and who is acting within the scope of his duties, shall be liable for injury to, or loss of property or personal injury or death which may be caused incident to providing such services."

Funds,
restrictions

"Goods."

79 Stat. 425.
10 USC 2634.

Limitations.

Petroleum
products.

North Atlantic
Treaty Organi-
zation.

Balance of
payments
deficit.

184

Equitable
cost sharing.

(b) The table of sections at the beginning of chapter 157 of title 10, United States Code, is amended by adding at the end thereof the following new item:

"635. Medical emergency helicopter transportation assistance and limitation on individual liability."

Vice Admiral
Hymen G.
Rickover,
USN (Ret.).

Sec. 815. In recognition of the vital contribution of Vice Admiral Hymen G. Rickover (United States Navy, retired) to our national defense and in special recognition of his invaluable guidance, initiative, and perseverance in developing the nuclear submarine, the President is authorized to appoint the said Hymen G. Rickover to the grade of admiral on the retired list with all the rights, privileges, benefits, pay and allowances provided by law for officers appointed to such grade.

Sec. 816. Notwithstanding any other provision of law, the authority provided in section 501 of the Defense Procurement Act of 1970, Act of October 7, 1970, Public Law 91-411 (84 Stat. 909), is hereby extended until December 31, 1975.

Sec. 817. (a) Title 10, United States Code, is amended by adding the following new section at the end of chapter 101:

"§ 2004. Detail of commissioned officers of the military departments as students at law schools

"(a) The Secretary of each military department may, under regulations prescribed by the Secretary of Defense, detail commissioned officers of the armed forces as students at accredited law schools, located in the United States, for a period of training leading to the degree of bachelor of laws or juris doctor. No more than twenty-five officers from each military department may commence such training in any single fiscal year.

"(b) To be eligible for detail under subsection (a), an officer must be a citizen of the United States and must—

"(1) have served on active duty for a period of not less than two years nor more than six years and be in the pay grade O-3 or below as of the time the training is to begin; and

"(2) sign an agreement that unless sooner separated he will—

"(A) complete the educational course of legal training;

"(B) accept transfer or detail as a judge advocate or law specialist within the department concerned when his legal training is completed; and

"(C) agree to serve on active duty following completion or other termination of training for a period of two years for each year or part thereof of his legal training under subsection (a).

"(c) Officers detailed for legal training under subsection (a) shall be selected on a competitive basis by the Secretary of the military department concerned, under regulations prescribed by the Secretary of Defense. Any service obligation incurred by an officer under an agreement entered into under subsection (b) shall be in addition to any service obligation incurred by any such officer under any other provision of law or agreement.

"(d) Expenses incident to the detail of officers under this section shall be paid from any funds appropriated for the military department concerned.

"(e) An officer who, under regulations prescribed by the Secretary of Defense, is dropped from the program of legal training authorized by subsection (a) for deficiency in conduct or studies, or for other reasons, may be required to perform active duty in an appropriate

imposed by regulations issued by the Secretary of Defense, except that in no case shall any such member be required to serve on active duty for any period in excess of one year for each year or part thereof he participated in the program.

"(f) No agreement detailing any officer of the armed forces to an accredited law school may be entered into during any period that the President is authorized by law to induct persons into the armed forces involuntarily. Nothing in this subsection shall affect any agreement entered into during any period when the President is not authorized by law to so induct persons into the armed forces."

(b) The table of contents of chapter 101 of title 10, United States Code, is amended by adding the following new item at the end thereof:

"2004. Detail of commissioned officers of the military departments as students at law schools."

PUBLIC HEALTH SERVICES HOSPITALS

Sec. 818. (a) Except as provided in subsection (b), the Secretary of Health, Education, and Welfare shall take such action as may be necessary to assure that the hospitals of the Public Health Service, located in Seattle, Washington, Boston, Massachusetts, San Francisco, California, Galveston, Texas, New Orleans, Louisiana, Baltimore, Maryland, Staten Island, New York, and Norfolk, Virginia, shall continue—

(1) in operation as hospitals of the Public Health Service, (2) to provide for all categories of individuals entitled or authorized to receive care and treatment at hospitals or other stations of the Public Health Service inpatient, outpatient, and other health care services in like manner as such services were provided on January 1, 1973, to such categories of individuals at the hospitals of the Public Health Service referred to in the matter preceding paragraph (1) and at a level and range at least as great as the level and range of such services which were provided (or authorized to be provided) by such hospitals on such date, and

(3) to conduct at such hospitals a level and range of other health-related activities (including training and research activities) which is not less than the level and range of such activities which were being conducted on January 1, 1973, at such hospitals.

(b) (1) The Secretary may—

(A) close or transfer control of a hospital of the Public Health Service to which subsection (a) applies.

(B) reduce the level and range of health care services provided at such a hospital from the level and range required by subsection (a) (2) or change the manner in which such services are provided at such a hospital from the manner required by such subsection, or

(C) reduce the level and range of the other health-related activities conducted at such hospital from the level and range required by subsection (a) (3),

if Congress by law (enacted after the date of the enactment of this Act) specifically authorizes such action.

(2) Any recommendation submitted to the Congress for legislation to authorize an action described in paragraph (1) with respect to a hospital of the Public Health Service shall be accompanied by a copy of the written, unqualified approval of the proposed action submitted to the Secretary by each (A) section 314(a) State health planning

85 Stat. 489.
10 USC 2003.

185

Eligibility.

Expenses.

87 STAT. 623

agency whose section 314(a) plan covers (in whole or in part) the area in which such hospital is located or which is served by such hospital, and (B) section 314(b) areawide health planning agency whose section 314(b) plan covers (in whole or in part) such area.

Definitions.

(3) For purposes of this subsection, the term "section 314(a) State health planning agency" means the agency of a State which administers or supervises the administration of a State's health planning functions under a State plan approved under section 314(a) of the Public Health Service Act (referred to in paragraph (2) as a "section 314(a) plan"); and the term "section 314(b) areawide health planning agency" means a public or nonprofit private agency or organization which has developed a comprehensive regional, metropolitan, or other local area plan or plans referred to in section 314(b) of that Act (referred to in paragraph (2) as a "section 314(b) plan").

80 Stat. 1181;
86 Stat. 1293.
42 USC 246.

Repeal.
86 Stat. 1292.
42 USC 246
note.
Short title.

(c) Section 3 of the Emergency Health Personnel Act Amendments of 1972 is repealed.

SEC. 819. This Act may be cited as the "Department of Defense Appropriation Authorization Act, 1974".

Approved November 16, 1973.

LEGISLATIVE HISTORY:

HOUSE REPORTS: No. 93-383 (Comm. on Armed Services) and No. 93-588 (Comm. of Conference).

SENATE REPORTS: No. 93-385 (Comm. on Armed Services) and No. 93-467 (Comm. of Conference).

CONGRESSIONAL RECORD, Vol. 119 (1973):

July 30, 31, considered and passed House.

Sept. 20-22, 24-28, Oct. 1, considered and passed Senate, amended.

Oct. 31, House agreed to conference report.

Nov. 5, Senate agreed to conference report.

○



Public Law 93-238
93rd Congress, H. R. 11575
January 2, 1974

An Act

87 STAT. 1026

Making appropriations for the Department of Defense for the fiscal year ending June 30, 1974, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the following sums are appropriated, out of any money in the Treasury not otherwise appropriated, for the fiscal year ending June 30, 1974, for military functions administered by the Department of Defense, and for other purposes, namely:

Department of
Defense
Appropriation
Act, 1974.

TITLE I

MILITARY PERSONNEL

MILITARY PERSONNEL, ARMY

For pay, allowances, individual clothing, subsistence, interest on deposits, gratuities, permanent change of station travel (including all expenses thereof for organizational movements), and expenses of temporary duty travel between permanent duty stations, for members of the Army on active duty (except members of reserve components provided for elsewhere); \$7,109,950,000.

MILITARY PERSONNEL, NAVY

For pay, allowances, individual clothing, subsistence, interest on deposits, gratuities, permanent change of station travel (including all expenses thereof for organizational movements), and expenses of temporary duty travel between permanent duty stations, for members of the Navy on active duty (except members of the Reserve provided for elsewhere), midshipmen, and aviation cadets; \$5,271,350,000, of which not to exceed \$9,000,000 shall be transferred to appropriate accounts under this head for the fiscal years 1969, 1971, and 1972 but only in such amounts as are necessary for payments to the Internal Revenue Service for unpaid withholding taxes, and the accounts in such fiscal years shall be adjusted accordingly.

MILITARY PERSONNEL, MARINE CORPS

For pay, allowances, individual clothing, subsistence, interest on deposits, gratuities, permanent change of station travel (including all expenses thereof for organizational movements), and expenses of temporary duty travel between permanent duty stations, for members of the Marine Corps on active duty (except members of the Reserve provided for elsewhere); \$1,547,000,000.

MILITARY PERSONNEL, AIR FORCE

For pay, allowances, individual clothing, subsistence, interest on deposits, gratuities, permanent change of station travel (including all expenses thereof for organizational movements), and expenses of temporary duty travel between permanent duty stations, for members of the Air Force on active duty (except members of reserve components provided for elsewhere), cadets, and aviation cadets; \$6,863,350,000.

related expenses for personnel of the Army Reserve on active duty under sections 265, 3019, and 3033 of title 10, United States Code, or while undergoing reserve training or while performing drills or equivalent duty, and for members of the Reserve Officers' Training Corps, as authorized by law; \$152,408,000.

RESERVE PERSONNEL, NAVY

For pay, allowances, clothing, subsistence, gratuities, travel, and related expenses for personnel of the Naval Reserve on active duty under section 265 of title 10, United States Code, or while undergoing reserve trainings, or while performing drills or equivalent duty, and for members of the Reserve Officers' Training Corps, as authorized by law; \$209,403,000.

RESERVE PERSONNEL, MARINE CORPS

For pay, allowances, clothing, subsistence, gratuities, travel, and related expenses for personnel of the Marine Corps Reserve on active duty under section 265 of title 10, United States Code, or while undergoing reserve training, or while performing drills or equivalent duty, and for members of the Marine Corps platoon leaders class, as authorized by law; \$61,173,000.

RESERVE PERSONNEL, AIR FORCE

For pay, allowances, clothing, subsistence, gratuities, travel, and related expenses for personnel of the Air Force Reserve on active duty under sections 265, 3019, and 3033 of title 10, United States Code, or while undergoing reserve training, or while performing drills or equivalent duty, and for members of the Air Reserve Officers' Training Corps, as authorized by law; \$126,962,000.

NATIONAL GUARD PERSONNEL, ARMY

For pay, allowances, clothing, subsistence, gratuities, travel, and related expenses for personnel of the Army National Guard while on duty under sections 265, 3033, or 3496 of title 10 or section 708 of title 32, United States Code, or while undergoing training or while performing drills or equivalent duty, as authorized by law; \$555,900,000.

NATIONAL GUARD PERSONNEL, AIR FORCE

For pay, allowances, clothing, subsistence, gratuities, travel, and related expenses for personnel of the Air National Guard on duty under sections 265, 3033, or 3496 of title 10 or section 708 of title 32, United States Code, or while undergoing training or while performing drills or equivalent duty, as authorized by law; \$177,500,000.

RETIRED PAY, DEFENSE

For retired pay and retirement pay, as authorized by law, of military personnel on the retired lists of the Army, Navy, Marine Corps, and the Air Force, including the reserve components thereof, retainer pay for personnel of the Inactive Fleet Reserve, and payments under section 4 of Public Law 92-425 and chapter 73 of title 10, United States Code; \$4,681,900,000.

TITLE III

OPERATION AND MAINTENANCE

OPERATION AND MAINTENANCE, ARMY

For expenses, not otherwise provided for, necessary for the operation and maintenance of the Army, as authorized by law; as follows: for Strategic forces, \$98,482,000; for General purpose forces, \$1,619,394,000; for Intelligence and communications, \$310,178,000; for Central supply and maintenance, \$1,802,832,000; for Training operations and other general personnel activities, \$1,087,131,000; for Medical activities, \$597,964,000; for Administration and associated activities, \$327,879,000; and for the Support of other nations, \$340,837,000; in all: \$6,214,697,000; *Provided*, That of the total amount of this appropriation, not to exceed \$3,069,000 can be used for emergencies and extraordinary expenses, to be expended on the approval or authority of the Secretary of the Army, and payment may be made on his certificate of necessity for confidential military purposes: *Provided further*, That not less than \$216,000,000 of the total amount of this appropriation shall be available only for the maintenance of real property facilities; *Provided further*, That the Secretary of the Army may transfer up to 3 per centum of the amount of any subdivision of this appropriation to any other subdivision of this appropriation, but no subdivision may thereby be increased by more than 5 per centum and the Secretary of the Army shall notify the Congress promptly of all transfers made pursuant to this authority.

OPERATION AND MAINTENANCE, NAVY

For expenses, not otherwise provided for, necessary for the operation and maintenance of the Navy and the Marine Corps, as authorized by law; as follows: for Strategic forces, \$331,226,000; for General purpose forces, \$2,334,618,000; for Intelligence and communications, \$393,225,000; for Central supply and maintenance, \$2,033,250,000; for Training operations and other general personnel activities, \$445,810,000; for Medical activities, \$354,645,000; for Administration and associated activities, \$177,285,000; and for the Support of other nations, \$21,881,000; in all: \$6,004,950,000; *Provided*, That of the total amount of this appropriation, not to exceed \$4,242,000 can be used for emergencies and extraordinary expenses, as authorized by section 7202 of title 10, United States Code, to be expended on the approval or authority of the Secretary of the Navy, and payment may be made on his certificate of necessity for confidential military purposes: *Provided further*, That not less than \$138,200,000 of the total amount of this appropriation shall be available only for the maintenance of real property facilities: *Provided further*, That of the total amount of this appropriation made avail-

in Navy shipyards and not less than \$539,919,000 shall be available for the performance of such work in private shipyards: *Provided further*, That during fiscal year 1974 the maintenance, operation, and availability of the Saint Albans Naval Hospital at Queens, New York, to meet the requirements of the military and naval forces and the retired personnel thereof shall be continued: *Provided further*, That the Secretary of the Navy may transfer up to 3 per centum of the amount of any subdivision of this appropriation to any other subdivision of this appropriation, but no subdivision may thereby be increased by more than 5 per centum and the Secretary of the Navy shall notify the Congress promptly of all transfers made pursuant to this authority.

OPERATION AND MAINTENANCE, MARINE CORPS

For expenses, not otherwise provided for, necessary for the operation and maintenance of the Marine Corps, as authorized by law; as follows: for General purpose forces, \$212,374,000; for Intelligence and communications, \$869,000; for Central supply and maintenance, \$101,254,000; for Training operations and other general personnel activities, \$66,486,000; and for Administration and associated activities, \$29,612,000; in all: \$410,645,000: *Provided*, That not less than \$44,500,000 of the total of this appropriation shall be available only for the maintenance of real property facilities: *Provided further*, That the Secretary of the Navy may transfer up to 3 per centum of the amount of any subdivision of this appropriation to any other subdivision of this appropriation, but no subdivision may thereby be increased by more than 5 per centum and the Secretary of the Navy shall notify the Congress promptly of all transfers made pursuant to this authority.

OPERATION AND MAINTENANCE, AIR FORCE

For expenses, not otherwise provided for, necessary for the operation and maintenance of the Air Force, as authorized by law; as follows: for Strategic forces, \$1,108,442,000; for General purpose forces, \$1,006,832,000; for Intelligence and communications, \$530,543,000; for Airlift and sealift, \$177,530,000; for Central supply and maintenance, \$2,304,868,000; for Training operations and other general personnel activities, \$563,266,000; for Medical activities, \$377,398,000; for Administration and associated activities, \$215,882,000; and for the Support of other nations, \$219,233,000; in all \$6,504,294,000: *Provided*, That of the total amount of this appropriation, not to exceed \$2,343,000 can be used for emergencies and extraordinary expenses, to be expended on the approval or authority of the Secretary of the Air Force, and payments may be made on his certificate of necessity for confidential military purposes: *Provided further*, That not less than \$215,000,000 of the total amount of this appropriation shall be available only for the maintenance of real property facilities: *Provided further*, That the Secretary of the Air Force may transfer up to 3 per centum of the amount of any subdivision of this appropriation to any other subdivision of this appropriation, but no subdivision may thereby be increased by more than 5 per centum and the Secretary of the Air Force shall notify the Congress promptly of all transfers made pursuant to this authority.

For expenses, not otherwise provided for, necessary for the operation and maintenance of activities and agencies of the Department of Defense (other than the military departments and the Defense Civil Preparedness Agency), as authorized by law; as follows: for the Secretary of Defense activities, \$19,719,000; for the organization of the Joint Chiefs of Staff, \$8,305,000; for the Office of Information for the Armed Forces, \$11,225,000; for the Armed Forces Institute, \$5,757,000; for the Defense Contract Audit Agency, \$57,250,000; for the Defense Investigative Service, \$20,320,000; for the Defense Mapping Agency, \$148,119,000; for the Defense Nuclear Agency, \$9,910,000; for the Defense Supply Agency, \$697,311,000; and for Intelligence and communications activities, \$116,859,000; in all: \$1,454,898,000: *Provided*, That of the total amount of this appropriation, not to exceed \$5,118,000 can be used for emergencies and extraordinary expenses, to be expended on the approval or authority of the Secretary of Defense, and payment may be made on his certificate of necessity for confidential military purposes: *Provided further*, That not less than \$17,100,000 of the total amount of this appropriation shall be available only for the maintenance of real property facilities: *Provided further*, That the Secretary of Defense may transfer up to 3 per centum of the amount of any subdivision of this appropriation to any other subdivision of this appropriation, but no subdivision may thereby be increased by more than 5 per centum and the Secretary of Defense shall notify the Congress promptly of all transfers made pursuant to this authority.

OPERATION AND MAINTENANCE, ARMY RESERVE

For expenses, not otherwise provided for, necessary for the operation and maintenance, including training, organization, and administration, of the Army Reserve; repair of facilities and equipment; hire of passenger motor vehicles; travel and transportation; care of the dead; recruiting; procurement of services, supplies, and equipment; and communication; \$253,900,000, of which not less than \$11,000,000 shall be available only for the maintenance of real property facilities.

OPERATION AND MAINTENANCE, NAVY RESERVE

For expenses, not otherwise provided for, necessary for the operation and maintenance, including training, organization, and administration, of the Navy Reserve; repair of facilities and equipment; hire of passenger motor vehicles; travel and transportation; care of the dead; recruiting; procurement of services, supplies, and equipment; and communications; \$170,750,000, of which not less than \$9,500,000 shall be available only for the maintenance of real property facilities.

OPERATION AND MAINTENANCE, MARINE CORPS RESERVE

For expenses, not otherwise provided for, necessary for the operation and maintenance, including training, organization, and administration, of the Marine Corps Reserve; repair of facilities and equipment; hire of passenger motor vehicles; travel and transportation; care of the dead; recruiting; procurement of services, supplies, and equipment; and communications; \$11,000,000, of which not less than \$800,000 shall be available only for the maintenance of real property facilities.

For expenses, not otherwise provided for, necessary for the operation and maintenance, including training, organization, and administration, of the Air Force Reserve; repair of facilities and equipment; hire of passenger motor vehicles; travel and transportation; care of the dead; recruiting; procurement of services, supplies, and equipment; and communications; \$221,900,000, of which not less than \$4,200,000 shall be available only for the maintenance of real property facilities.

OPERATION AND MAINTENANCE, ARMY NATIONAL GUARD

For expenses of training, organizing, and administering the Army National Guard, including medical and hospital treatment and related expenses in non-Federal hospitals; maintenance, operation, and repairs to structures and facilities; hire of passenger motor vehicles; personnel services in the National Guard Bureau; travel expenses (other than mileage), as authorized by law for Army personnel on active duty, for Army National Guard division, regimental, and battalion commanders while inspecting units in compliance with National Guard regulations when specifically authorized by the Chief, National Guard Bureau; supplying and equipping the Army National Guard as authorized by law; and expenses of repair, modification, maintenance, and issue of supplies and equipment (including aircraft); \$524,400,000, of which not less than \$2,000,000 shall be available only for the maintenance of real property facilities.

OPERATION AND MAINTENANCE, AIR NATIONAL GUARD

For operation and maintenance of the Air National Guard, including medical and hospital treatment and related expenses in non-Federal hospitals; maintenance, operation, repair, and other necessary expenses of facilities for the training and administration of the Air National Guard, including repair of facilities, maintenance, operation, and modification of aircraft; transportation of things; hire of passenger motor vehicles; supplies, materials, and equipment, as authorized by law for the Air National Guard; and expenses incident to the maintenance and use of supplies, materials, and equipment, including such as may be furnished from stocks under the control of agencies of the Department of Defense; travel expenses (other than mileage) on the same basis as authorized by law for Air National Guard personnel on active Federal duty, or Air National Guard commanders while inspecting units in compliance with National Guard regulations when specifically authorized by the Chief, National Guard Bureau; \$514,250,000, of which not less than \$3,500,000 shall be available only for the maintenance of real property facilities.

NATIONAL BOARD FOR THE PROMOTION OF RIFLE PRACTICE, ARMY

For the necessary expenses of construction, equipment, and maintenance of rifle ranges, the instruction of citizens in marksmanship, and promotion of rifle practice, in accordance with law, including travel of rifle teams, military personnel, and individuals attending regional, national, and international competitions, and not to exceed \$10,000 for incidental expenses of the National Board; \$159,000: *Provided*, That travel expenses of civilian members of the National Board shall be paid in accordance with the Standardized Government Travel Regulations, as amended.

law to be paid by the Department of Defense (except for civil functions), including claims for damages arising under training contracts with carriers, and repayment of amounts determined by the Secretary concerned, or officers designated by him, to have been erroneously collected from military and civilian personnel of the Department of Defense, or from States, territories, or the District of Columbia, or members of the National Guard units thereof; \$19,100,000.

CONTINGENCIES, DEFENSE

For emergencies and extraordinary expenses arising in the Department of Defense, to be expended on the approval or authority of the Secretary of Defense and such expenses may be accounted for solely on his certificate that the expenditures were necessary for confidential military purposes; \$5,000,000.

COURT OF MILITARY APPEALS, DEFENSE

For salaries and expenses necessary for the United States Court of Military Appeals; \$864,000.

TITLE IV

PROCUREMENT

AIRCRAFT PROCUREMENT, ARMY

For construction, procurement, production, modification, and modernization of aircraft, equipment, including ordnance, ground handling equipment, spare parts, and accessories therefor; specialized equipment and training devices; expansion of public and private plants, including the land necessary therefor, without regard to section 4774, title 10, United States Code, for the foregoing purposes, and such lands and interests therein, may be acquired, and construction prosecuted thereon prior to approval of title as required by section 355, Revised Statutes, as amended; and procurement and installation of equipment, appliances, and machine tools in public and private plants; and other expenses necessary for the foregoing purposes; \$138,400,000, and in addition, \$21,400,000, of which \$6,700,000 shall be derived by transfer from "Aircraft Procurement, Army, 1972-1974" and \$14,700,000 shall be derived by transfer from "Aircraft Procurement, Army 1973-1975", to remain available for obligation until June 30, 1976.

MISSILE PROCUREMENT, ARMY

For construction, procurement, production, modification, and modernization of missiles, equipment, including ordnance, ground handling equipment, spare parts, and accessories therefor; specialized equipment and training devices; expansion of public and private plants, including the land necessary therefor, without regard to section 4774, title 10, United States Code, for the foregoing purposes, and such lands and interests therein, may be acquired, and construction prosecuted thereon prior to approval of title as required by

70A Stat. 269;
83 Stat. 312;
85 Stat. 408.
40 USC 255.

section 355, Revised Statutes, as amended; and procurement and installation of aircraft, equipment including ordnance, spare parts, and accessories therefor; specialized equipment, expansion of public and private plants, including the land necessary therefor, and such lands and interests therein, may be acquired, and construction prosecuted thereon prior to approval of title as required by section 355, Revised Statutes, as amended; and procurement and installation of equipment, appliances, and machine tools in public or private plants; and in addition, \$22,000,000, of which \$5,000,000 shall be derived by transfer from "Missile Procurement, Army 1972/1974" and \$17,000,000 shall be derived from "Missile Procurement, Army 1973/1975", to remain available for obligation until June 30, 1976.

PROCUREMENT OF WEAPONS AND TRACKED COMBAT VEHICLES, ARMY

For construction, procurement, production, and modification of weapons and tracked combat vehicles, equipment, including ordnance, spare parts, and accessories therefor; specialized equipment; training devices; expansion of public and private plants, including the land necessary therefor, without regard to section 4774, title 10, United States Code, for the foregoing purposes, and such lands and interest therein, may be acquired, and construction prosecuted thereon prior to approval of title as required by section 355, Revised Statutes, as amended; and procurement and installation of equipment, appliances, and machine tools in public and private plants; and other expenses necessary for the foregoing purposes; \$224,300,000, to remain available for obligation until June 30, 1976.

PROCUREMENT OF AMMUNITION, ARMY

For construction, procurement, production, and modification of ammunition, and accessories therefor; specialized equipment and training devices; expansion of public and private plants, including the land necessary therefor, without regard to section 4774, title 10, United States Code, for the foregoing purposes, and such lands and interest therein, may be acquired, and construction prosecuted thereon prior to approval of title as required by section 355, Revised Statutes, as amended; and procurement and installation of equipment, appliances, and machine tools in public and private plants; and other expenses necessary for the foregoing purposes; \$784,300,000, and in addition, \$146,100,000, of which \$100,000,000 shall be derived by transfer from the Army Stock Fund, and \$46,100,000 which shall be derived by transfer from "Procurement of Ammunition, Army, 1973/1975", to remain available for obligation until June 30, 1976.

OTHER PROCUREMENT, ARMY

For construction, procurement, production, and modification of vehicles, including tactical, support, and nontracked combat vehicles; communications and electronic equipment; other support equipment; spare parts, ordnance and accessories therefor; specialized equipment and training devices; expansion of public and private plants, including the land necessary therefor, without regard to section 4774, title 10, United States Code, for the foregoing purposes, and such lands and interest therein, may be acquired, and construction prosecuted thereon prior to approval of title as required by section 355, Revised Statutes, as amended; and procurement and installation of equipment, appliances, and machine tools in public and private plants; and other expenses necessary for the foregoing purposes; \$461,690,000, and in addition, \$39,500,000, of which \$20,500,000 shall be derived by transfer from "Other Procurement, Army, 1972/1974" and \$19,000,000 shall be derived by transfer from "Other Procurement, Army, 1973/1975", to remain available for obligation until June 30, 1976.

ernization of aircraft, equipment including ordnance, spare parts, and accessories therefor; specialized equipment, expansion of public and private plants, including the land necessary therefor, and such lands and interests therein, may be acquired, and construction prosecuted thereon prior to approval of title as required by section 355, Revised Statutes, as amended; and procurement and installation of equipment, appliances, and machine tools in public or private plants; and in addition, \$106,800,000, of which \$40,000,000 shall be derived by transfer from "Procurement of Aircraft and Missiles, Navy, 1972/1974" and \$66,800,000 shall be derived by transfer from "Procurement of Aircraft and Missiles, Navy, 1973/1975", to remain available for obligation until June 30, 1976.

WEAPONS PROCUREMENT, NAVY

For construction, procurement, production, modification, and modernization of missiles, torpedoes, other weapons, and related support equipment including spare parts, and accessories therefor; expansion of public and private plants, including the land necessary therefor, and such lands and interests therein, may be acquired, and construction prosecuted thereon prior to approval of title as required by section 355, Revised Statutes, as amended; and procurement and installation of equipment, appliances, and machine tools in public or private plants; and in addition, \$5,000,000 shall be available only for the Trident program, to remain available for obligation until June 30, 1976.

SHIPBUILDING AND CONVERSION, NAVY

For expenses necessary for the construction, acquisition, or conversion of vessels as authorized by law, including armor and armament thereof, plant equipment, appliances, and machine tools and installation thereof in public or private plants; procurement of critical, long leadtime components and designs for vessels to be constructed or converted in the future; and expansion of public and private plants, including land necessary therefor, and such lands and interests therein, may be acquired, and construction prosecuted thereon prior to approval of title as required by section 355, Revised Statutes, as amended; \$3,468,100,000, of which \$627,800,000 shall be available only for the Trident program, \$913,200,000 shall be available only for the SSN-688 class submarine program, and \$79,000,000 shall be available only for advance procurement funding for DLGN-41 and DLGN-42 nuclear-powered frigates, to remain available for obligation until June 30, 1978: *Provided*, That none of the funds herein provided for the construction or conversion of any naval vessel to be constructed in shipyards in the United States shall be expended in foreign shipyards for the construction of major components of the hull or superstructure of such vessel: *Provided further*, That none of the funds herein provided shall be used for the construction of any naval vessel in foreign shipyards.

OTHER PROCUREMENT, NAVY

For procurement, production, and modernization of support equipment and materials not otherwise provided for, Navy ordnance and ammunition (except ordnance for new aircraft, new ships, and ships authorized for conversion), expansion of public and private plants, including the land necessary therefor, and such lands and interests

therein, may be acquired, and construction prosecuted thereon prior to June 30, 1976, and in addition, the Department of Defense, Air Force, 1972/1973, 1973/1975, to remain available for obligation until June 30, 1976.

PROCUREMENT, MARINE CORPS

For expenses necessary for the procurement, manufacture, and modification of missiles, armament, ammunition, military equipment, spare parts, and accessories therefor; plant equipment, appliances, and machine tools, and installation thereof in public or private plants, and vehicles for the Marine Corps; \$173,922,000, and in addition, \$5,000,000, of which \$3,000,000 shall be derived by transfer from "Procurement, Marine Corps, 1972/1974" and \$2,000,000 which shall be derived by transfer from "Procurement, Marine Corps, 1973/1975", to remain available for obligation until June 30, 1976.

AIRCRAFT PROCUREMENT, AIR FORCE

For construction, procurement, and modification of aircraft and equipment, including armor and armament, specialized ground handling equipment, and training devices, spare parts, and accessories therefor; specialized equipment; expansion of public and private plants, Government-owned equipment and installation thereof in such plants, erection of structures, and acquisition of land without regard to section 9774 of title 10, United States Code, for the foregoing purposes, and such lands and interests therein, may be acquired, and construction prosecuted thereon prior to the approval of title as required by section 355, Revised Statutes, as amended; reserve plant and equipment layaway; and other expenses necessary for the foregoing purposes, including rents and transportation of things; \$2,720,400,000, of which \$28,300,000 shall be available for reimbursement to the appropriation "Military assistance", and in addition, \$54,000,000, of which \$30,000,000 shall be derived by transfer from "Aircraft Procurement, Air Force, 1972/1974" and \$24,000,000 shall be derived by transfer from "Aircraft Procurement, Air Force, 1973/1975", and of the total funds transferred, \$41,000,000 shall be available for reimbursement to the appropriation "Military assistance", to remain available for obligation until June 30, 1976.

MISSILE PROCUREMENT, AIR FORCE

For construction, procurement, and modification of missiles, rockets, and related equipment, including spare parts and accessories therefor, ground handling equipment, and training devices; expansion of public and private plants, Government-owned equipment and installation thereof in such plants, erection of structures, and acquisition of land without regard to section 9774 of title 10, United States Code, for the foregoing purposes, and such lands and interests therein, may be acquired, and construction prosecuted thereon prior to the approval of title as required by section 355, Revised Statutes, as amended; reserve plant and equipment layaway; and other expenses necessary for the foregoing purposes including rents and transportation of things;

\$1,993,000,000, and in addition, the Department of Defense, Air Force, 1972/1973, 1973/1975, to remain available for obligation until June 30, 1976.

OTHER PROCUREMENT, AIR FORCE

For procurement and modification of equipment (including ground guidance and electronic control equipment, and ground electronic and communication equipment), and supplies, materials, and spare parts therefor, not otherwise provided for; and expansion of public and private plants, Government-owned equipment and installation thereof in such plants, erection of structures, and acquisition of land without regard to section 9774 of title 10, United States Code, for the foregoing purposes, and such lands and interests therein may be acquired, and construction prosecuted thereon prior to the approval of title as required by section 355, Revised Statutes, as amended; \$1,542,700,000, and in addition, \$20,000,000, of which \$17,000,000 shall be derived by transfer from "Other Procurement, Air Force, 1972/1974" and \$3,000,000 shall be derived by transfer from "Other Procurement, Air Force, 1973/1975", to remain available for obligation until June 30, 1976.

PROCUREMENT, DEFENSE AGENCIES

For expenses of activities and agencies of the Department of Defense (other than the military departments and the Defense Civil Preparedness Agency) necessary for procurement, production, and modification of equipment, supplies, materials, and spare parts therefor, not otherwise provided for; expansion of public and private plants, equipment and installation thereof in such plants, erection of structures, and acquisition of land for the foregoing purposes, and such lands and interests therein, may be acquired, and construction prosecuted thereon prior to the approval of title as required by section 355, Revised Statutes, as amended; \$66,000,000, to remain available for obligation until June 30, 1976.

TITLE V

RESEARCH, DEVELOPMENT, TEST, AND EVALUATION

RESEARCH, DEVELOPMENT, TEST, AND EVALUATION, ARMY

For expenses necessary for basic and applied scientific research, development, test, and evaluation, including maintenance, rehabilitation, lease, and operation of facilities and equipment, as authorized by law; \$1,912,100,000, and in addition, \$3,500,000 to be derived by transfer from "Research, Development, Test, and Evaluation, Army, 1973/1974", to remain available for obligation until June 30, 1975.

RESEARCH, DEVELOPMENT, TEST, AND EVALUATION, NAVY

For expenses necessary for basic and applied scientific research, development, test, and evaluation, including maintenance, rehabilitation, lease, and operation of facilities and equipment, as authorized by law; \$2,651,805,000, to remain available for obligation until June 30, 1975: *Provided further*, That no part of the appropriation contained in this Act shall be used for Full Scale Development of Project Sanguine.

70A Stat. 590;
83 Stat. 312;
85 Stat. 409.
40 USC 255.

192
A Stat. 590;
83 Stat. 312;
85 Stat. 409.
40 USC 255.

For expenses necessary for basic and applied scientific research, development, test, and evaluation, including maintenance, rehabilitation, lease, and operation of facilities and equipment, as authorized by law; \$3,042,000,000, to remain available for obligation until June 30, 1975.

RESEARCH, DEVELOPMENT, TEST, AND EVALUATION, DEFENSE AGENCIES

For expenses of activities and agencies of the Department of Defense (other than the military departments and the Defense Civil Preparedness Agency), necessary for basic and applied scientific research, development, test, and evaluation; advanced research projects as may be designated and determined by the Secretary of Defense, pursuant to law; maintenance, rehabilitation, lease, and operation of facilities and equipment, as authorized by law; \$457,900,000, to remain available for obligation until June 30, 1975: *Provided*, That such amounts as may be determined by the Secretary of Defense to have been made available in other appropriations available to the Department of Defense during the current fiscal year for programs related to advanced research may be transferred to and merged with this appropriation to be available for the same purposes and time period: *Provided further*, That such amounts of this appropriation as may be determined by the Secretary of Defense may be transferred to carry out the purposes of advanced research to those appropriations for military functions under the Department of Defense which are being utilized for related programs, to be merged with and to be available for the same time period as the appropriation to which transferred.

DIRECTOR OF TEST AND EVALUATION, DEFENSE

For expenses, not otherwise provided for, of independent activities of the Director of Defense Test and Evaluation in the direction and supervision of test and evaluation, including initial operational testing and evaluation; and performance of joint testing and evaluation; and administrative expenses in connection therewith, \$24,600,000, to remain available for obligation until June 30, 1975.

TITLE VI

SPECIAL FOREIGN CURRENCY PROGRAM

For payment in foreign currencies which the Treasury Department determines to be excess to the normal requirements of the United States for expenses of carrying out programs of the Department of Defense, as authorized by law, \$2,600,000, to remain available for obligation until June 30, 1975: *Provided*, That this appropriation shall be available, in addition to other appropriations to such Department, for payments in the foregoing currencies.

TITLE VII

GENERAL PROVISIONS

Sec. 701. No part of any appropriation contained in this Act shall be used for publicity or propaganda purposes not authorized by the Congress.

Sec. 702. During the fiscal year 1975, and Air Force, respectively, in their support of the Department of Defense are their opinions the existing facilities of the Department of Defense are inadequate, are authorized to procure services in accordance with section 2109 of title 5, United States Code, under regulation prescribed by the Secretary of Defense, and to pay in connection therewith travel expenses of individuals, including actual transportation and per diem in lieu of subsistence while traveling from their homes or places of business to official duty station and return as may be authorized by law: *Provided*, That such contracts may be renewed annually.

Sec. 703. During the current fiscal year, provisions of law prohibiting the payment of compensation to, or employment of, any person not a citizen of the United States shall not apply to personnel of the Department of Defense.

Sec. 704. Appropriations contained in this Act shall be available for insurance of official motor vehicles in foreign countries, when required by laws of such countries; payments in advance of expenses determined by the investigating officer to be necessary and in accord with local custom for conducting investigations in foreign countries incident to matters relating to the activities of the department concerned; reimbursement of General Services Administration for security guard services for protection of confidential files; reimbursement of the Federal Bureau of Investigation for expenses in connection with investigations of defense contractor personnel; and all necessary expenses, at the seat of government of the United States of America or elsewhere, in connection with communication and other services and supplies as may be necessary to carry out the purposes of this Act.

Sec. 705. Any appropriation available to the Army, Navy, or the Air Force may, under such regulations as the Secretary concerned may prescribe, be used for expenses incident to the maintenance, pay, and allowances of prisoners of war, other persons in Army, Navy, or Air Force custody whose status is determined by the Secretary concerned to be similar to prisoners of war, and persons detained in such custody pursuant to Presidential proclamation.

Sec. 706. Appropriations available to the Department of Defense for the current fiscal year for maintenance or construction shall be available for acquisition of land or interest therein as authorized by section 2672 or 2673 of title 10, United States Code.

Sec. 707. Appropriations for the Department of Defense for the current fiscal year shall be available, (a) except as authorized by the Act of September 30, 1950 (20 U.S.C. 236-244), for primary and secondary schooling for minor dependents of military and civilian personnel of the Department of Defense residing on military or naval installations or stationed in foreign countries, as authorized for the Navy by section 7204 of title 10, United States Code, in an amount not exceeding \$196,614,000, when the Secretary of the Department concerned finds that schools, if any, available in the locality, are unable to provide adequately for the education of such dependents: *Provided*, That under such regulations as may be issued by the Secretary of Defense, such schooling in a school operated by the Department of Defense under this section may be provided without tuition for minor dependents of civilian and military personnel of the Department of Defense who died while entitled to compensation or active duty pay: *Provided further*, That where such personnel die subsequent to January 11, 1971, such schooling must be continued or commenced within one year after the date of death; (b) for expenses in connection with administration of occupied areas; (c) for payment of rewards as authorized for the Navy by section 7209(a) of title 10,

80 Stat. 41
Employment
noncitizens
Appropriations
availability
Prisoners
war.
Land acquisition.
85 Stat. 4
72 Stat. 1
84 Stat. 1
Dependents
schooling
70a Stat.

Transfer of funds.

...of the Reserve Officers' Training Corps.

SEC. 720. During the current fiscal year the agencies of the Department of Defense may accept the use of real property from foreign countries for the United States in accordance with initial defense agreements or occupational arrangements and may accept services furnished by foreign countries as reciprocal international courtesies or as services customarily made available without charge; and such agencies may use the same for the support of the United States forces in such areas without specific appropriation therefor.

In addition to the foregoing, agencies of the Department of Defense may accept real property, services, and commodities from foreign countries for the use of the United States in accordance with mutual defense agreements or occupational arrangements and such agencies may use the same for the support of the United States forces in such areas, without specific appropriations therefor: *Provided*, That the foregoing authority shall not be available for the conversion of heating plants from coal to oil at defense facilities in Europe: *Provided further*, That within thirty days after the end of each quarter the Secretary of Defense shall render to Congress and to the Office of Management and Budget a full report of such property, supplies, and commodities received during such quarter.

SEC. 721. During the current fiscal year, appropriations available to the Department of Defense for research and development may be used for the purposes of section 2353 of title 10, United States Code, and for purposes related to research and development for which expenditures are specifically authorized in other appropriations of the service concerned.

SEC. 722. No appropriation contained in this Act shall be available for the payment of more than 75 per centum of charges of educational institutions for tuition or expenses of off-duty training of military personnel, nor for the payment of any part of tuition or expenses for such training for commissioned personnel who do not agree to remain on active duty for two years after completion of such training.

SEC. 723. No part of the funds appropriated herein shall be expended for the support of any formally enrolled student in basic courses of the senior division, Reserve Officers' Training Corps, who has not executed a certificate of loyalty or loyalty oath in such form as shall be prescribed by the Secretary of Defense.

SEC. 724. No part of any appropriation contained in this Act shall be available for the procurement of any article of food, clothing, cotton, woven silk or woven silk blends, spun silk yarn for cartridge cloth, synthetic fabric or coated synthetic fabric, or wool (whether in the form of fiber or yarn or contained in fabrics, materials, or manufactured articles), or specialty metals not grown, reprocessed, reused, or produced in the United States or its possessions, except to the extent that the Secretary of the Department concerned shall determine that a satisfactory quality and sufficient quantity of any articles of food or clothing or any form of cotton, woven silk and woven silk blends, spun silk yarn for cartridge cloth, synthetic fabric or coated synthetic fabric, wool, or specialty metals grown, reprocessed, reused, or produced in the United States or its possessions cannot be procured as and when needed at United States market prices and except procurements outside the United States in support of combat operations, procurements by vessels in foreign waters, and emergency procurements or procurements of perishable foods by establishments located

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tation.

...of the Reserve Officers' Training Corps.

SEC. 720. During the current fiscal year the agencies of the Department of Defense may accept the use of real property from foreign countries for the United States in accordance with initial defense agreements or occupational arrangements and may accept services furnished by foreign countries as reciprocal international courtesies or as services customarily made available without charge; and such agencies may use the same for the support of the United States forces in such areas without specific appropriation therefor.

In addition to the foregoing, agencies of the Department of Defense may accept real property, services, and commodities from foreign countries for the use of the United States in accordance with mutual defense agreements or occupational arrangements and such agencies may use the same for the support of the United States forces in such areas, without specific appropriations therefor: *Provided*, That the foregoing authority shall not be available for the conversion of heating plants from coal to oil at defense facilities in Europe: *Provided further*, That within thirty days after the end of each quarter the Secretary of Defense shall render to Congress and to the Office of Management and Budget a full report of such property, supplies, and commodities received during such quarter.

SEC. 721. During the current fiscal year, appropriations available to the Department of Defense for research and development may be used for the purposes of section 2353 of title 10, United States Code, and for purposes related to research and development for which expenditures are specifically authorized in other appropriations of the service concerned.

SEC. 722. No appropriation contained in this Act shall be available for the payment of more than 75 per centum of charges of educational institutions for tuition or expenses of off-duty training of military personnel, nor for the payment of any part of tuition or expenses for such training for commissioned personnel who do not agree to remain on active duty for two years after completion of such training.

SEC. 723. No part of the funds appropriated herein shall be expended for the support of any formally enrolled student in basic courses of the senior division, Reserve Officers' Training Corps, who has not executed a certificate of loyalty or loyalty oath in such form as shall be prescribed by the Secretary of Defense.

SEC. 724. No part of any appropriation contained in this Act shall be available for the procurement of any article of food, clothing, cotton, woven silk or woven silk blends, spun silk yarn for cartridge cloth, synthetic fabric or coated synthetic fabric, or wool (whether in the form of fiber or yarn or contained in fabrics, materials, or manufactured articles), or specialty metals not grown, reprocessed, reused, or produced in the United States or its possessions, except to the extent that the Secretary of the Department concerned shall determine that a satisfactory quality and sufficient quantity of any articles of food or clothing or any form of cotton, woven silk and woven silk blends, spun silk yarn for cartridge cloth, synthetic fabric or coated synthetic fabric, wool, or specialty metals grown, reprocessed, reused, or produced in the United States or its possessions cannot be procured as and when needed at United States market prices and except procurements outside the United States in support of combat operations, procurements by vessels in foreign waters, and emergency procurements or procurements of perishable foods by establishments located

Foreign real
property, use.

Report to Con-
gress and Of-
fice of Man-
agement and
Budget.

Research and
development
funds.
70a Stat. 134.

Education ex-
penses, re-
striction.

ROTC, loyalty
requirements.

Procurement
restrictions.

manufactured or produced in the United States for export of goods.
Provided further, That no funds herein appropriated shall be used for the payment of a price differential on contracts hereafter made for the purpose of relieving economic dislocations; *Provided further*, That none of the funds appropriated in this Act shall be used except that, so far as practicable, all contracts shall be awarded on a formally advertised competitive bid basis to the lowest responsible bidder.

SEC. 725. None of the funds appropriated in this Act shall be used for the construction, replacement, or reactivation of any bakery, laundry, or drycleaning facility in the United States, its territories or possessions, as to which the Secretary of Defense does not certify in writing, giving his reasons therefor, that the services to be furnished by such facilities are not obtainable from commercial sources at reasonable rates.

SEC. 726. During the current fiscal year, appropriations of the Department of Defense shall be available for reimbursement to the United States Postal Service for payment of costs of commercial air transportation of military mail between the United States and foreign countries.

SEC. 727. Appropriations contained in this Act shall be available for the purchase of household furnishings, and automobiles from military and civilian personnel on duty outside the continental United States, for the purpose of resale at cost to incoming personnel, and for providing furnishings, without charge, in other than public quarters occupied by military or civilian personnel of the Department of Defense on duty outside the continental United States or in Alaska, upon a determination, under regulations approved by the Secretary of Defense, that such action is advantageous to the Government.

SEC. 728. During the current fiscal year, appropriations available to the Department of Defense for pay of civilian employees shall be available for uniforms, or allowances therefor, as authorized by law (5 U.S.C. 5901; 80 Stat. 508).

SEC. 729. During the current fiscal year, the Secretary of Defense shall, upon requisition of the National Board for the Promotion of Rifle Practice, and without reimbursement, transfer from agencies of the Department of Defense to the board ammunition from stock or which has been procured for the purposes in such amounts as he may determine.

Such appropriations of the Department of Defense available for obligation during the current fiscal year as may be designated by the Secretary of Defense shall be available for the travel expenses of military and naval personnel, including the Reserve components, and members of the Reserve Officers' Training Corps attending regional, national, or international rifle matches.

SEC. 730. Funds provided in this Act for congressional liaison activities of the Department of the Army, the Department of the Navy, the Department of the Air Force, and the Office of the Secretary of Defense shall not exceed \$1,300,000; *Provided*, That this amount shall be available for apportionment to the Department of the Army, the Department of the Navy, the Department of the Air Force, and the Office of the Secretary of Defense as determined by the Secretary of Defense.

SEC. 731. Of the funds made available by this Act for the services of the Military Airlift Command, \$100,000,000 shall be available only for procurement of commercial transportation service from carriers participating in the civil reserve air fleet program; and the Secretary of Defense shall utilize the services of such carriers which qualify as

in the Secretary of Defense shall supply in such procurement, aircraft operated by the civil air fleet.

SEC. 732. During the current fiscal year, appropriations available to the Department of Defense for operation may be used for civilian clothing, not to exceed \$40 in cost for enlisted personnel: (1) discharged for misconduct, unfitness, unsuitability, or otherwise than honorably; (2) sentenced by a civil court to confinement in a civil prison or interned or discharged as an alien enemy; (3) discharged prior to completion of recruit training under honorable conditions for dependency, hardship, minority, disability, or for the convenience of the Government.

SEC. 733. No part of the funds appropriated herein shall be available for paying the costs of advertising by any defense contractor, except advertising for which payment is made from profits, and such advertising shall not be considered a part of any defense contract cost. The prohibition contained in this section shall not apply with respect to advertising conducted by any such contractor, in compliance with regulations which shall be promulgated by the Secretary of Defense, solely for (1) the recruitment by the contractor of personnel required for the performance by the contractor of obligations under a defense contract, (2) the procurement of scarce items required by the contractor for the performance of a defense contract, or (3) the disposal of scrap or surplus materials acquired by the contractor in the performance of a defense contract.

SEC. 734. Funds appropriated in this Act for maintenance and repair of facilities and installations shall not be available for acquisition of new facilities, or alteration, expansion, extension, or addition of existing facilities, as defined in Department of Defense Directive 7040.2, dated January 18, 1961, in excess of \$50,000; *Provided*, That the Secretary of Defense may amend or change the said directive during the current fiscal year, consistent with the purpose of this section.

SEC. 735. During the current fiscal year upon determination by the Secretary of Defense that such action is necessary in the national interest, he may, with the approval of the Office of Management and Budget, transfer not to exceed \$625,000,000 of the appropriations of funds available to the Department of Defense for military functions (except military construction) between such appropriations or funds or any subdivision thereof, to be merged with and to be available for the same purposes, and for the same time period, as the appropriation or fund to which transferred; *Provided*, That such authority to transfer may not be used unless for higher priority items, based on unforeseen military requirements, then those for which originally appropriated, and in no case where the item for which funds are requested has been denied by Congress; *Provided further*, That the Secretary of Defense shall notify the Congress promptly of all transfers made pursuant to this authority.

SEC. 736. None of the funds appropriated in this Act may be used to make payments under contracts for any program, project, or activity in a foreign country unless the Secretary of Defense or his designee, after consultation with the Secretary of the Treasury or his designee, certifies to the Congress that the use, by purchase from the Treasury, of currencies of such country acquired pursuant to law is not feasible for the purpose, stating the reason therefor.

SEC. 737. (a) Not to exceed \$1,126,000,000 of the appropriations available to the Department of Defense during the current fiscal year shall be available for their stated purposes to support (1) Vietnamese

Civilian clothing.

Defense contractors' advertising costs, restrictions.

New facilities, restrictions.

Transfer of funds.

Notice to Congress.

Contract payments in foreign countries.

Forces in Vietnam and Laos, support.

Travel expenses.

Mail reimbursement.

Furnishings and automobiles, purchase.

Uniforms.

Stat. 206, Promotion, transfer.

Travel expenses.

Congressional liaison activities.

Civil reserve air fleet.

and maintenance of the active forces shall be available for medical and other charges of private members for care or recreation (including elective private treatment); welfare and recreation; hire of passenger motor vehicles; repair of facilities; modification of personal property; design of vessels; industrial mobilization; installation of equipment in public or private plants; military communications facilities on merchant vessels; acquisition of services, special clothing, supplies, and equipment; and expenses for the Reserve Officers' Training Corps and other units at educational institutions.

Sec. 743. No part of the funds in this Act shall be available to prepare or present a request to the Committees on Appropriations for the reprogramming of funds, unless for higher priority items, based on unforeseen military requirements, than those for which originally appropriated and in no case where the item for which reprogramming is requested has been denied by the Congress.

Sec. 746. None of the funds contained in this Act shall be used to furnish petroleum fuels produced in the continental United States to Southeast Asia for use by non-United States nationals.

7 Stat. 216;
19 Stat. 547.

Report to Congress.
Working capital funds.

76 Stat. 521.

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Payments to convicted rioters, prohibition.

Loans to campus disrupters, prohibition.

Vietnam, Laos, or Cambodia, combat activities, funds prohibition. Heating plant conversion.

Involuntary experimental subjects.

TITLE VIII

DEFENSE MANPOWER COMMISSION

There is hereby appropriated the sum of \$400,000 to the Defense Manpower Commission for use in carrying out the provisions of title VII of the Department of Defense Appropriation Authorization Act, 1974.

This Act may be cited as the "Department of Defense Appropriation Act, 1974".

Approved January 2, 1974.

Ante, p. 1037.
Short title.

LEGISLATIVE HISTORY:

HOUSE REPORTS: No. 93-662 (Comm. on Appropriations) and No. 93-741 (Comm. of Conference).

SENATE REPORT No. 93-617 (Comm. on Appropriations).

CONGRESSIONAL RECORD, Vol 119 (1973):

Nov. 29, 30, considered and passed House.

Dec. 13, considered and passed Senate, amended.

Dec. 20, House and Senate agreed to conference report; resolved amendments in disagreement.

CHAPTER I

DESCRIPTION OF THE NAVY COST INFORMATION SYSTEM

1.1 Introduction

The purpose of this publication is to describe the Navy Cost Information System (NCIS) and to provide instructions for the operation of the NCIS in relation to the Programming Systems of the Department of the Navy and Department of Defense. The instructions contained in this publication are for the use of Systems Commands, Bureaus, Offices, and Headquarters, Marine Corps for maintaining and updating the programming records in the NCIS in support of the program/budget process.

The aim of this chapter is to outline briefly the development, purpose, and objectives of the NCIS in relation to the Programming Systems of the Navy Department and DOD. The program information contained in the NCIS data bank is described and illustrated in Chapter 2. The maintenance and updating of these cost data are described and illustrated in Chapters 3 and 4. The reports generated from the cost data in the NCIS data bank for the Programming Systems of the Department of the Navy and Department of Defense are described and illustrated in Chapters 5 and 6.

1.2 Background

Following the establishment of the Department of Defense in 1947, great emphasis has been placed by DOD on improving the management process within the Service Departments. Particular attention has been given to improving the system of financial management and the budget process.

Beginning in 1961, a major effort was undertaken to emphasize the related processes of planning and programming. The objectives of this effort which have been to integrate planning, programming and financial management, represented the first step towards establishing a formalized and coordinated DOD Programming System. The broad outline of the DOD Programming system, as well as many of the details developed during 1961, was placed in effect beginning with the FY 1963 budget submitted to Congress in January 1962.

1.3 Five Year Defense Program (FYDP)

The Department of Defense programming document developed from the programming system is the Five Year Defense Program. The FYDP establishes for the Military Departments and DOD Agencies the approved force structure and financial levels for each program year. This document is continuously effective until modified by approved changes. Also, unless a program appears in the FYDP, it has no official standing in the program/budget cycle.

The Department of Defense FYDP is compiled from programming information in the FYDP of each of the military services and DOD agencies. The Department of the Navy portion of the FYDP is the official Navy programming document in which approved Navy and Marine forces, resources, and funding levels are published. Supporting the Department of the Navy FYDP is the Navy Cost Information System (NCIS) which provides an automated data bank containing detailed cost and program information.

A list of publications and instructions which describe and implement the DOD programming system in the Navy Department is contained in Annex A. For example, the detailed instructions explaining the procedures and documents used to administer the Navy portion of the DOD programming system are contained in the Navy Programming Manual, OPNAV 90P-1.

1.4 Navy Cost Information System (NCIS)

The NCIS has been developed to meet the programming report requirements of the Navy Department portion of the Five Year Defense Program, and to provide a uniform reporting structure to be used within the Navy Department for planning, programming, budgeting and appraisal.

1.4.1 Purpose

To meet these report requirements of the Navy Department and OSD, the NCIS was set up to help Navy management attain the following programming objectives:

- a. Permit planning oriented around program and major mission as well as by appropriation.
- b. Relate resources to military outputs.
- c. Coordinate long range planning with the annual budget process.
- d. Permit continuous appraisal of programs.
- e. Help identify and avoid duplication of effort in the various DOD programs.
- f. Permit progress reporting of approved programs.
- g. Make cost effectiveness studies of alternative forces and systems.
- h. Permit integration with other DOD information systems.

1.4.2 Data Bank

The program/budget records generated as part of the programming system are stored in the NCIS data bank. The data bank component of the NCIS is designed to provide the mechanism to:

- a. Identify resources and their related costs.
- b. Record and identify changes and proposed changes to programming data.
- c. Provide a data base from which programming changes are made.
- d. Provide an historical record of resources and costs.
- e. Provide needed data in a minimum of time.
- f. Provide a variety of reports.

1.4.3 Capability

The Navy Cost Information System, using high speed computers to process data stored in its data bank, provides Navy Management with the capability to rapidly:

- a. Relate program decisions to the budget structure.
- b. Update program costs and budget estimates.
- c. Estimate future budget requirements.
- d. Produce cost effectiveness studies.
- e. Relate programs to resources.
- f. Identify costs of specified forces.
- g. Identify resources in terms of ships, aircraft units, real property, facilities, special projects, weapons systems, and civilian and military manpower.
- h. Produce a variety of program/budget reports.
- i. Interface with other management information systems.

1.5 Long Range Objectives

The long range goal of the NCIS is to attain a fully automated program/budget data system for the Navy Department to satisfy the objectives of the Resource Management Systems described in DOD Instruction 7000.1 of August 22, 1966. During the budget phase of the programming cycle, for example, the information stored in the data bank would be translated into the appropriation structure to become the Navy portion of the Defense Budget.

The NCIS has the capacity to satisfy the report requirements of a comprehensive resources management system for the Navy Department. However, procedures for introducing these new requirements are not now in the system. In addition, the following new data items are also planned to be included:

1. Proposed plans (including unobligated balances, assets, reimbursements).
2. Obligations.
3. Expenditures
4. New obligational authority (NOA).
5. Expenses

CHAPTER 2

CONTENTS OF THE SYSTEM

2.1 Introduction

The Navy Cost Information System (NCIS) is an ordered discipline whereby data are organized to produce designed relationships of Navy's resources. Designed into the NCIS is the capability to produce detailed relationships of resources and funds to programs. These data on resources, costs, and programs are stored in the NCIS data bank and related to forces and missions in the Five Year Defense Program. The records in the NCIS data bank are also related by a Unit Identifier Code (UIC) to the Navy accounting system. Use of this UIC from the accounting system gives the NCIS the ability to capture the program/budget data required by the Navy and DOD Programming System. Additions and deletions to the records in the data bank are rigidly controlled. Changes to these records are made only when generated from programming documents or actions authorized as part of the Navy Department and DOD procedure for updating the FYDP.

The programming data contained in the records in the NCIS data bank are generally defined and illustrated in this chapter. The procedures for maintaining continuous control of the programming information described in this chapter are explained in chapter 3. The procedures for updating these data records to reflect programming decisions are discussed in detail in chapter 4.

2.2 Data Records

In general, the records in the NCIS contain information about use and funding of specific resources and were generated as a result of programming decisions. These data records identify the following programming information:

- a. The Resource involved in the programming decision
- b. The DOD Program to which the resource is applied.
- c. The Appropriation which is the source of the funds and the Fiscal Years for which funding occurred.
- d. The Cost Category of the appropriation.
- e. The Amount of the funds programmed and the number of items involved.
- f. The Authorization Document upon which the programming data contained in the data record is based.
- g. The Unit Identification Code of the activity involved, as assigned by the Command, Bureau, or Office responsible for the resource.

These terms as they are used in the program/budget system and the NCIS are discussed in the following paragraphs.

3 Resource

The resources identified in the NCIS are broadly defined as those items, services which are purchased, maintained, or operated; and they are classified into four major categories - Material - RDT&E - Military Construction - Personnel. Whenever possible, these resources are measured in financial and non-financial terms.

a. Material Resource

A material resource is either a weapons system or an item of equipment.

(1) Weapons System - A weapon system is a type or class of ship, a series or model of aircraft, and selected independent missile system. Some of the ship types identified in the NCIS are listed in Annex B. For example; DD, DDG, DLG. Some of the aircraft types, models, and series identified in the NCIS are illustrated in Annex C. For example VA, VF, A-7A, F-4B.

(2) Item of equipment - An item of equipment is any system, piece of hardware, or item of supply which is not classified as a complete weapons system. The item may or may not be a component of a ship, aircraft or missile system. An example of an item of equipment identified in the NCIS is the ASW Sonar system AN/SQS -23.

b. Research Development Test & Evaluation Resource

A RDT&E resource is defined as an installation, laboratory, research project, or test site, engaged in research.

c. Construction resource

A construction resource is a construction project financed with military construction funds.

d. Personnel resource

Personnel resources are broadly classified into military or civilian manpower.

2.4 Program

A DOD program is defined as an integrated activity, a combination of men, equipment and facilities which together make up an identifiable military force or mission. The DOD Five Year Defense Program identifies ~~nine~~ ^{eleven} major programs. These major programs are made up of approximately 1100 program elements which are detailed identifications of men, materials, and money in the programming system. The forces, resources, and funds reported in the Navy portion of the FYDP are applied to approximately 600 program elements. Figure 2-1 is a summary of the program elements in the DOD programming system which apply to the Navy and Marine Corps. Programming decisions related to these programs are the responsibility of designated program sponsors. The assignment of program sponsors, by program, for the Navy portion of the FYDP is summarized in Figure 2-2.

A complete list of program elements contained in the Navy Department Five Year Defense Program is contained in Annex D. For example, the DOD programming system identifies Destroyers which are part of Cruiser-Destroyer Forces in Program Element 2.34.01.02.2.

2.5 Appropriation

Appropriation data in support of the NDFYDP are recorded in the NCIS in detail by Fiscal Year. The appropriations, for personnel, procurement, operations and maintenance, research and development, construction, and special purpose funds are identified to the detail level of the budget structure.

For example; Other Procurement, Navy Communications and Electronics Equipment, Anti-Submarine Warfare, ASW Equipment. These appropriation data are related in the NCIS data bank to the appropriate cost category classification in the DOD programming system.

2.6 Cost Category

The costs of the material, RDT&E, construction and personnel resources reported in the NCIS are grouped in the following categories: Research and Development - Investment - Operating. These cost categories are briefly defined as follows:

a. Research and Development

Research and development costs are those primarily associated with R&D efforts to develop new or improved capabilities to the point of operational use.

b. Investment

Investment costs are those required beyond the development stage to introduce a new capability into operational use; to procure initial, additional, or replacement equipment for the operational forces; and to provide for modifications to existing capabilities.

c. Operating

Operating costs are those necessary to operate and maintain a new capability or improved capability throughout its projected life.

The appropriation data recorded in the NCIS are required to be related to these cost categories. Figure 2-3 is a summary of the appropriations and major activities identified in the NCIS related to cost categories. Also shown in Figure 2-3 are the Systems Commands, Bureaus, and Offices inputting these appropriation data into the data bank.

In addition to identifying the general cost categories of R&D, Investment, and Operating, the NCIS also contains sub-categories of these cost classifications which are more detailed identifications of the purpose for which the funds are used. For example, the cost of the purchase of a AN/SQS-23 Sonar with OP,N funds would be recorded as a procurement of this item as an investment. These sub-categories are described in more detail in Chapter 3.

2.7 Amount (TOA)

The cost figures shown in the NCIS are the "Total Obligation Authority" required for each program. TOA is defined as the total amount for programming in a given year. TOA includes new obligational authority, unprogrammed or reprogrammed obligational authority from prior years, reimbursements not used for replacement of inventory in kind, and advanced funding for programs to be financed in the future. Except for cost estimates of ship construction, the dollar figures shown in the NCIS are current prices. Contingency factors such as inflation are not considered.

2.8 Authorization Document

The documents and programming actions which authorize the generation or change in the NCIS records are specifically defined in the programming system. For example, it may be a Program Change Decision (PCD) described on SD Form 428 or reprogramming Action contained on DD Form 1415. The types of documents and actions which permit the generation and change of data records are listed in Chapter 4. The procedures related to the preparation and use of these authorizing documents are described in detail in the Navy Programming Manual.

2.9 Unit Identifier Code (UIC)

Each naval activity such as a command, ship, station, unit, aircraft squadron, special project, or specialized function as part of the accounting system is assigned an accounting code by the Comptroller of the Navy for accumulations of costs for the accounting of funds. The NCIS ties into this code to identify the naval activity responsible for the resources identified in the data bank records. For example, the DD 676, USS Marshall (Weapon System) is specifically identified in the accounting system and in the NCIS. In this way programming decisions can be related to organizational units and to Systems Command, Bureaus, and Offices responsible for administering funds effecting these units. For example, the record of a purchase of an AN/SGS Sonar from OP,N funds, administered by the NAVSHIPSYSCOM, can be identified in the NCIS to the ship designated to receive this item of equipment. UIC's are also tied to program elements, as discussed below and in Chapter 3.

Figure 2-4 is an illustration of a record generated by a Program Change Decision that would be a data input to the NCIS by the Naval Ship Systems Command.

2.10 Data Bank

The programming data on individual input records, generated by each inputting office, related to the forces and programs in the Five Year Defense Program are controlled by NAVCOMPT in the NCIS. For example, the DD 676, USS Marshall, is assigned to the Cruiser-Destroyer Forces which are part of Program II General Purpose Forces, and reported in FE 2.34.01.04.2 for Destroyers in the FYDP. The DD 676 is also identified by its own Unit Identifier Code in an input record. These two facts are related to each other in the NCIS dictionary component of the data bank.

NAVY COST INFORMATION SYSTEM

FORMAT OF INPUT DATA AND CONTROL RECORD

THIS FORMAT IS USED TO
INPUT DATA RECORDS INTO
THE NCIS DATA BANK.
(CARD OR TAPE)

UIC (8 DIGITS)								CAT STUB (3 DIGITS)								(1 DIGIT)		RESOURCE CATEGORY (8 DIGITS)								APPROPRIATION (8 DIGITS)								WEAPONS SYSTEM (8 DIGITS)								(2 DIGITS)				CHANGE (8 DIGIT)																																																																																																																									
ALPHA. DESIGNATOR								UNIT IDENTIFIER CODE								STATUS								FUNCTION								BLANK								COST CATEGORY								SUB CATEGORY								BLANK								RECORD I.D.								SEE CODING INSTRUCTIONS								BLANK								TITLE								MAJOR ACTIVITY								BUDGET ACTIVITY								BUDGET PROJECT								BLANK								SEE CODING INSTRUCTIONS								BUREAU I.D.								BLANK								CHANGE CODE								CHANGE							
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57																																																																																																															

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CODING OF SAMPLE DATA
INPUT RECORD DESCRIBED
IN CHAPTER 4.

B	0	4	2	7	6	0	0	2	B	8	1	0	4	0	1	2	1	4	0	4	3	0	2	0	1	0	4	0	0	0	3	0	1	0	0	2	4	0	1	0	N
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

DD 676 USS MARSHALL

INVEST
PROCUREMENT

DATA
RECORD
ASW
SONAR
SYSTEM
AN / SOS-23

OPN
CEE
ASW
ASW EQUIPMENT

DESTROYER
DD TYPE

NAV
SHIPS
CHANGE
SYS.COM
DECIS-
ION

CONTROL RECORD

THIS FORMAT IS USED
TO INPUT CONTROL
RECORDS (CARD OR TAPE)

5

4 3 0 2

2 4

(PCD)

CHANGE I.D. (8 DIGITS)			NO. OF ITEM (7 DIGITS)	AMOUNT (IN THOUSANDS) (8 DIGITS)
CHANGE NUMBER	BLANK	FISCAL YEAR		
55 57 58 59 60 61	62 63	64 65	66 67 68 69 70 71 72	73 74 75 76 77 78 79 80



0 N 7 2 9 4		6 7	0 0 0 0 0 0 1	0 0 0 0 0 1 6 0
-----------------------	--	-------	---------------------------	-------------------------------



G. CRUISER FY 1967
GE DESTROYER FUNDING 1 \$160 THOUS.
3- FORCES

	6 7		
--	-------	--	--

ENTER THE SUM OF ALL DATA
RECORDS RELATED TO THIS
APPROPRIATION, BUR. I.D., AND
FISCAL YEAR

FIGURE 2-4

4.3 Organizations Responsible for Program Data Input into the NCIS

While inputting offices prepare detail cost records, other management echelons must review and validate these program data inputs for reporting in the NCIS/FYDP. NAVCOMPT and NDPIC, in general, have the control responsibility for all program data appearing in the NCIS/FYDP and coordinate their efforts in resolving any differences in program data classifications. The review responsibility of program sponsors is, in general, to assure that program decisions received in the Department of the Navy are correctly interpreted and applied to the program data classifications in the NCIS.

The responsibilities of the organizations involved in assuring the accuracy of selected program data appearing in the NCIS reports are summarized below. The program data classifications summarized below are grouped to highlight those data entries contained on an input record and those program data classifications contained in the NCIS dictionaries.

a. Entries on an Input Data Record

<u>Program Data Classification</u>	<u>Input Responsibility</u>	<u>Control Responsibility</u>	<u>Review Responsibility</u>
UIC	Cmd., Bur., Ofc., MC	NAVCOMPT/NDPIC	Program Sponsor
Cost Category	Cmd., Bur., Ofc., MC	NAVCOMPT/NDPIC	
Resource Category	Cmd., Bur., Ofc., MC	NAVCOMPT/NDPIC	Program Sponsor
Appropriation	Cmd., Bur., Ofc., MC	NAVCOMPT	Appropriation Sponsor
Weapons System	Cmd., Bur., Ofc., MC	NAVCOMPT/NDPIC	Program Sponsor
Change ID	Cmd., Bur., Ofc., MC	NAVCOMPT/NDPIC	
No. of Items	Cmd., Bur., Ofc., MC	NAVCOMPT/NDPIC	
Amount (thousands)	Cmd., Bur., Ofc., MC	NAVCOMPT/NDPIC	

b. Entries Related to an Input Data Record in NCIS Dictionaries

Program Element	Cmd., Bur., Ofc., MC	NAVCOMPT/NDPIC	Program Sponsor
UDC for UIC	Cmd., Bur., Ofc., MC	NAVCOMPT/NDPIC	Program Sponsor
Class Code for RCC/WSC	Cmd., Bur., Ofc., MC	NAVCOMPT/NDPIC	Program Sponsor
Field ID	NAVCOMPT	NAVCOMPT	

The purpose of each classification of program data in the data records and in the NCIS dictionaries is summarized in the following paragraph. The coding of these program data for the sample input record, illustrated in Figure 2-4, is summarized in paragraph 4-5. The program classifications in the following two paragraphs are also grouped to show those contained on an input record and those contained in the NCIS dictionaries.

.4 Summary of NCIS Classifications and Code Structure

a. Entries on an Input Data Record

<u>Program Data Classification</u>	<u>Program Data Identified</u>	<u>Code Structure</u>	<u>Record Column</u>
JIC	Identifies-organization to which resource is assigned	8 digits	1-8
Cost Category	Identifies-cost category of the resource	3 digits	15-17
Record ID	Identifies-input as data or control record.	1 digit	22
Resource Category	Identifies-type of resource.	8 digits	23-30
Appropriation	Identifies-source of funds.	8 digits	34-41
Weapons System	Identifies - type of ship, aircraft, missile system	8 digits	43-50
Bureau ID	Identifies-organization inputting the record.	2 digits	51-52
Change ID	Identifies-authority for the record.	8 digits	54-61
Fiscal Year	Identifies-fiscal year for which the record applies.	2 digits	64-65
No. of Items	Identifies-quantity involved.	7 digits	66-72
Amount (thousands)	Identifies-amount of funds programmed.	8 digits	73-80

b. Entries related to an Input Data Record in NCIS Dictionaries

Program Element	Identifies-DOD program element in ND/FYDP.	8 digits	-----
UDC for UIC	Identifies-Unit Descriptor Code	6 digits	-----
Class Code for RCC/WSC	Identifies-Class. Code of the resource.	2 digits	-----
Field ID	Identifies item for the DOD/FYDP.	4 digits	-----

4.5 Example of Data Input Record

The following sample transaction illustrates the programming information recorded on an input record (card or magnetic tape) for entry into the NCIS data bank in support of the program/budget system. The entries related to this record are illustrated below the description of the sample transaction.

a. Sample Input Record

Purchase of ASW Sonar System for \$160,000 for retrofit to DD676, with funds from Other Procurement, Navy for FY 1967 by the Naval Ships System Command. DD676 is on active status, in FY 1967, as part of the Cruiser-Destroyer Forces. See Figure 2-4.

b. Entries made on sample input data record

<u>Program Data</u> <u>Classification</u>	<u>Information Recorded</u>	<u>Codes</u>	<u>Source</u>
UTC	DD676 - USS Marshall	BO427600	Dictionary 90
Cost Category	Invest; Procurement	2BB	Dictionary 40
Record ID	FYDP Data	1	NCIS Manual
Resource Category	AN/SQS-23 Sonar	04012140	Dictionary 30
Appropriation	OPN, CEE, ASW, ASW Equipment	43020104	Dictionary 67
Weapons System	DD Type	00030100	Dictionary 30
Bureau ID	NAVSHIPSYSKOM	24	NCIS Manual
Change ID	Program Change Decision (PCD)	010N7294	Dictionary 10
Fiscal Year	1967	67	NCIS Manual
No. of Items	1	0000001	PCD
Amount (thousands)	\$160 thousand	00000160	PCD

c. Entries Related to sample input data record in NCIS Dictionaries

Program Element	Destroyers	2.34.01.04.2	Dictionary 20
UDC for UTC	DD Type	030100	Dictionary 90
Class Code for RCC/WSC	ASW Electronics	H5	Dictionary 30
Field ID	DD (Active)	0105	Dictionary 30

COST/OUTPUT DATA FOR BETTER MANAGEMENT

by Ivon W. Ulrey

Historically the objective of government accounting has been to provide record systems that would prevent resource users from spending in excess of their budgetary authorizations. This function of government accounting will always remain necessary, but more recently another function has been added--that of providing managers with quantitative data in a form which will help them be better managers.

With every governmental agency facing tight budget limitations and conflicting priorities in the use of scarce resources, management decisions at all levels are becoming increasingly important. And the numbers collected through accounting systems--if they are the right numbers--can become an indispensable tool for improving these decisions.

With the introduction of accrual accounting the GAO Accounting Procedures Manual recognized this additional role, stressing that accounting systems should provide "cost information" needed (1) for "achieving maximum efficiency and economy;" (2) for "making meaningful comparisons of performance;" (3) for "planning;" and (4) for the "general exercise of management control."

The improvement of cost data was a logical starting point since accounting information could not be of much use

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for management until managers were able to relate each expenditure to the specific time period when resources were used and to the specific program in which they were consumed. But this introduction of accrual accounting alone is not enough. Cost data by themselves cannot provide a manager with a basis for achieving maximum efficiency and economy, or for making meaningful comparisons, or for planning unless he also knows what was accomplished as a result of each such expenditure.

Figures on resources used must be matched with figures on what was accomplished (output). Otherwise operating managers--and their superiors up the line--do not have a basis for evaluating how well resources have been used in the past. They do not have a basis for making decisions to improve future performance; nor can they compare two or more facilities to evaluate the relative performance of particular managers or to determine the best size for operating a particular type of program--whether it be food service centers, engine rework facilities, hospitals, postal stations, a recreation center or any other activity engaged in turning out goods or services. They do not even have a basis for budgeting; they cannot tell how many resources must be allocated next year to accomplish the same things, or more, or less than this year.

Such decisions are an essential part of management both in private industry and in government. But it is harder for government resource managers to obtain the quantitative

information needed in making these decisions than it is for their opposite numbers in the private sectors of the economy. In the private sector the market itself provides a direct measure of accomplishment. Operations of a factory or a repair shop or a store all result in sales and in associated revenues. The number of sales made might be referred to as output and the revenue might be used as a measure of value received by the customer. The very fact that the customer chose to order and pay for the service is evidence tending to validate its price. If, at the end of some time periods, revenues collected by the activity exceed costs, equal or fall short of meeting them, this provides a basis for judging how well resources have been used by the resource manager.

Profit, of course, is a very imperfect and incomplete measure of performance. Decisions made to maximize immediate profit may lead to a worsening of our environment and may ultimately create conditions that make business operations themselves difficult or impossible. But a dollar figure for profit or loss does provide a starting point for measuring accomplishment even if it must be modified in various ways. Governmental managers have no comparable guide. Sales, revenues and profits, moreover, translate physical units of output into dollar terms which can be compared directly with cost data and with the output of other quite different business activities.

Managers of government programs whose goods and services

do not directly meet the market test must look to record systems to provide them with information comparable to that generated in the private sector through the very process of doing business in the market. If they are to be useful and reliable management tools, such systems must make it possible to match cost with output for the same program over the same period of time and for a range of outputs.

The first and most important point to note here is that this requires two measures--one of cost and one of output--and that these measures must be independent of each other. Suppose that, in default of an independent output measure, we accept the value of resources consumed in carrying out a program as a proxy for measuring that program's output. If we do this, we are assuming that changes in expenditure will be accomplished automatically by exactly proportionate changes in output: we could double our accomplishment by doubling the budget, and conversely a twenty per cent slash in the budget would inevitably cut output by the same percentage. We all know that this may or may not be true in any given instance. Changes in expenditures do not tell whether output has changed--and certainly not how much it has changed.

Even the so-called "intermediate measures" of output leave us in this same trap. Measuring the "manhours" or "mandays" consumed in a particular program is just another way of counting inputs and calling them outputs. In some respects it may be even more misleading than counting dollar

expenditures since decisions in which cost and output data are used often include questions about the best way of combining the factors of production. For instance, an office manager may want to know whether he should handle a growing workload by hiring more people or by acquiring more highly automated equipment, or by some combination of the two which is even more likely. A measure of manhours expended would show his output increasing only with additions to the work force.

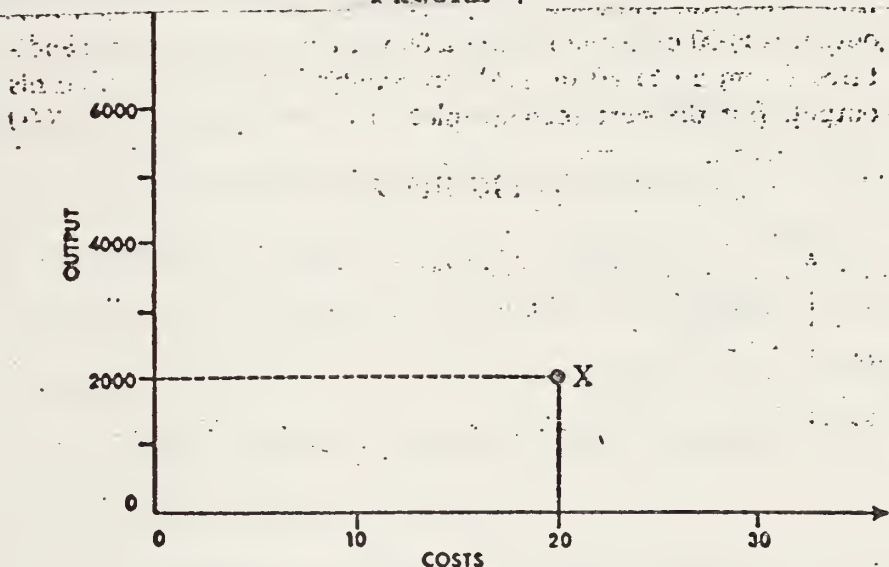
This example illustrates the importance of providing those who make management decisions with measures which are useful for their particular needs--not just any output measure but a measure which will be useful for the particular type of analysis to which it will be put. Managers of specific programs must be supplied not just with any output numbers, but with numbers which--though they will not be perfect--are good enough for their particular use. If they are good enough for some types of analysis, but not for others, this fact also must be known.

This is a large order, but output statistics will be of little value until they are used for economic analysis. Those of us who are concerned with providing statistics through accounting systems can better understand what is required if we reflect about those uses.

There are many analytic techniques that are helpful in solving different types of management problems, but they all require that the analyst be able to measure quantitatively

what was accomplished over a specific period of time and to match this output with resources consumed. Such a relationship can be shown graphically by drawing a grid and matching physical units of output on the vertical axis with the resources consumed in their production--measured as dollar costs along the horizontal axis (Figure 1).

FIGURE 1



This graph can be drawn only if the outputs really are all the outputs and only the outputs that resulted from using those resources over that period of time. Conversely, the dollar figures plotted on the horizontal axis must include all the relevant costs and only the relevant costs. If we can provide the manager of a particular program--say a repair shop--with numbers that meet these conditions, he will know--on the basis of experience--what costs have been associated with his current level of operations and he will be able to plot a point (X) on the graph which shows the expenditures he can expect that same workload to entail over

a comparable future period (provided of course that input prices--and technology--remain the same). After the time period has passed, he will be able to tell how closely his actual costs and output matched these expectations.

This single point, in itself, is valuable to the manager. But when cost and output figures have been collected for his program over a more extended time period, the new data will open the way to a much higher level of analysis. As the workload fluctuates at his or other comparable facilities, figures will become available on the costs associated with several different output levels. Then the manager will be able to identify the impact on costs of changes in output around his actual operating level, or conversely to anticipate accurately what impact changes in his budget can be expected to have on his future output.

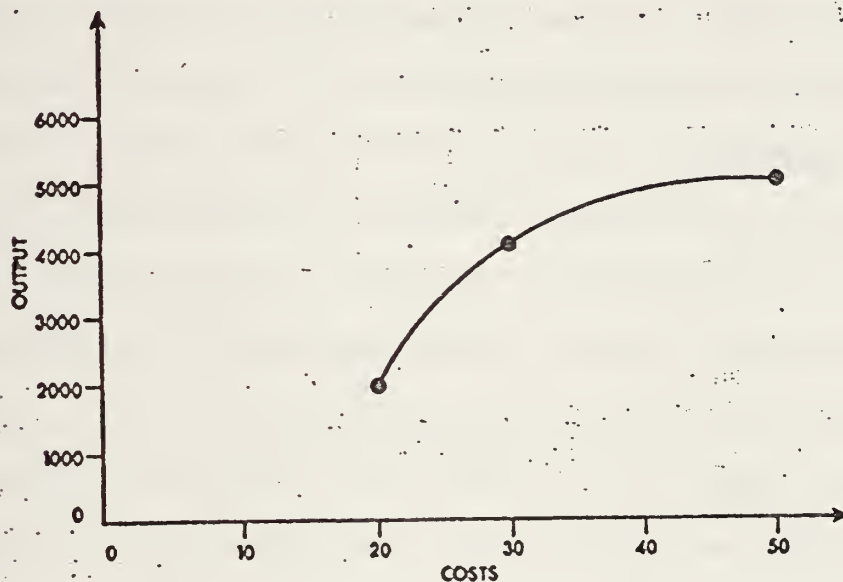
This sort of analysis requires several pairs of numbers showing what costs would be associated with several alternative output levels (Figure 2). Each additional point can be plotted on the graph. And when there are enough, these can be joined to make a curve.

From that curve, the manager whose activity is already operating at some specified level can estimate how much it would cost to raise his output by a specified amount or, alternatively, what additional output could be gained from a specified additional expenditure.

Suppose the manager of the hypothetical repair facility confronts the situation shown on Figure 2. If the facility's

current output is 2000 units per month, a 50 per cent increase in expenditures (from 20 to 30 on the horizontal grid) would double his output. But the next increase plotted on the graph (from 4000 units to 5000) would hike

FIGURE 2



costs by two-thirds and achieve only a 25 per cent increase in output. Additional increases would become even more expensive as the repair shop's facilities were pressed beyond their normal capacity. If the manager's options include the possibility of expanding the facility, a modification of this analytic technique can be useful in deciding how much expansion--if any--is warranted.

But the manager, in considering his future operating level, cannot read his decision directly off this or any other graph. Future production may depend on many factors in addition to cost--on how rapidly repairs must be made, on the availability of alternative facilities and on other

considerations. But the manager is seriously handicapped in his planning if he cannot make use of marginal analysis.

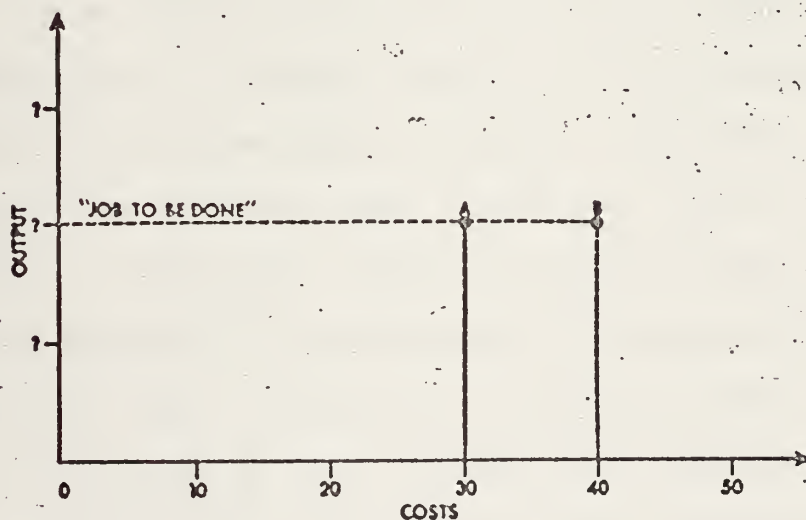
Economists do not call this sort of analysis "marginal" because it is barely worth doing but because it is concerned with incremental changes--changes up or down from an existing level of production or expenditure. Most management decisions concerning alternative ways of using resources involve such changes from existing levels, and this is the sense in which they are referred to as marginal decisions.

The importance of marginal analysis for management control and planning is obvious. If output data cannot be quantified, the planning effort becomes one simply of defining a job in non-quantitative terms and then seeking the low-cost alternative for doing it. In terms of the earlier graph, the horizontal axis (Costs) can be graduated, but the vertical axis (Output) cannot. The analyst can draw an horizontal line somewhere from the vertical axis at a level arbitrarily chosen to represent the job to be done (Figure 3), but his ability to utilize the powerful tool of marginal analysis is lost. All he can do is seek the least expensive way of accomplishing the specific job he has described. In Figure 3, he would simply choose alternative A since it is the low-cost alternative.

There are other analytic techniques for solving various management problems which also depend on the analyst being able to identify relationships between output and cost over at least some relevant range of production. For instance,

managers faced with decisions about building new facilities or modifying, consolidating or decentralizing existing ones need to know the best size for facilities operating in their particular location. They can identify this "optimum" size by taking cost/output numbers for each of a number of facilities which cover a range of sizes but are otherwise comparable and plotting these points on the same sort of grid as shown in Figure 2. When this is done, a relationship between operating size and costs can be determined statistically through regression analysis. Managers can then identify the particular size of facility which results in the lowest cost per unit of output.

FIGURE 3



Another use lies in the important area of performance evaluation. If an historical relationship between facility size and operating cost has been established for a particular type of activity--say, the operation of cafeterias or other food services--it becomes possible to compare the performance

of various facilities providing that service even though their scales of operation differ widely.

An equation can be calculated and a regression line drawn on a graph showing the cost levels which might be expected for different cafeterias solely on the basis of their size. Remember, of course, that these "expectations" will simply reflect average experience in the recent past. Cost/output points for each of the food service centers being compared can then be plotted on the same graph, and if the "point" for a particular cafeteria lies on or near the regression line, its performance about matches the average. Points further from the line identify facilities where costs differ from the average for reasons other than size.

Once again it should be noted that this analytic technique does not itself evaluate the performance of the individual facilities being compared. It merely serves to call attention to those where costs are "out of line"--either above or below what might be expected--and alerts a responsible manager to investigate the circumstances of each. He may find that the high-cost facility faced a difficult special situation or that it was inefficiently run. In the same way, he may find that the low-cost operation has simply been enjoying special advantages of some sort. On the other hand, the local management may have developed new or better operating techniques--may perhaps have achieved a technological breakthrough that can be applied at other installations and result in lowering the cost of meal service throughout the

activity.

Management decisions will always depend in the final analysis upon the exercise of judgment. But judgment is formed on the basis of available information, and analytic techniques like those discussed here are powerful tools for organizing data in meaningful ways. Until our accounting systems supply the quantitative data needed for applying these techniques, managers of government activities will be handicapped in carrying out their function compared with managers in the private sector of the economy. Accountants today are being challenged to develop the better information systems managers need in order to do a better job.



NAVAL AUDIT SERVICE



INTERNAL AUDITING IN THE
DEPARTMENT OF THE NAVY

AUDGENAV
NAVAL AUDIT SERVICE

SEPTEMBER 1973

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MISSION, FUNCTION, AND ORGANIZATION

DEPARTMENTAL ORGANIZATION AND FUNCTION

The Auditor General. The Auditor General is responsible for the implementation of audit policies established by the Comptroller of the Navy; for serving as Staff Assistant to the Deputy Comptroller of the Navy; for advising the Assistant Secretary of the Navy (Financial Management) on audit matters; and serves as Director, Naval Audit Service.

The Deputy Auditor General. The Deputy Auditor General executes all duties and responsibilities assigned by the Auditor General; acts as Auditor General (Director, Naval Audit Service) in his absence; and serves as Deputy Director, Naval Audit Service.

NAVAL AUDIT SERVICE MISSION, FUNCTION, AND ORGANIZATION

Mission.

a. NAVAL AUDIT SERVICE. It is the mission of the Naval Audit Service to administer and perform internal auditing throughout the Department of the Navy, by providing an independent, objective review and evaluation of the efficiency and effectiveness with which resources are being utilized.

b. NAVAL AUDIT SERVICE REGIONAL OFFICES. Under the command and support of the Director, Naval Audit Service, to be responsible for the administration of Navy and Marine Corps auditing conducted throughout its assigned geographic area of cognizance.

Function. The purpose of internal auditing is to provide those responsible for management at all levels with an independent, objective, and constructive evaluation of the effectiveness and efficiency with which managerial responsibilities (including financial, operational, and support activities) are being carried out. All organizational components and levels of operations are subject to independent and comprehensive audit review and appraisal. Internal audit activities include examining and appraising policies, systems, procedures, records, and reports relating to programming, budgeting, accounting, procurement, supply, financial, or business transactions of all levels, and other operations having an impact on the expenditure of funds, utilization of resources, or effective accomplishment of management objectives. Audit activities will be directed toward determining that management controls at all levels are adequate in concept and effective in application.

September 1973

Organization. The Naval Audit Service is composed of a Headquarters and five Regional Offices. The geographic apportionment of responsibility among the Regional Offices is shown by the accompanying map. As a result of the Shore Establishment Realignment Program, NAVAREAUDSVC Boston is being consolidated with NAVAUDSVC NE. The key elements and personnel of the organization are as follows:

Naval Audit Service Headquarters

AUDGENAV and DIRNAVAUDSVC	RADM J. E. Forrest, SC, USN
Deputy	CAPT Robert W. Thompson, SC, USN

Naval Area Audit Service Boston (Being disestablished, February 1974)

Director	CAPT J. D. Kohl, SC, USN
Deputy Director	

Naval Audit Service Northeast Region

Director	CAPT W. T. Walker, SC, USN
Deputy Director	Mr. A. J. Paquin (GS-15)

Naval Audit Service Capital Region

Director	CAPT E. S. York, SC, USN
Deputy Director	Mr. K. B. Hancock (GS-15)

Naval Audit Service Southeast Region

Director	CAPT J. A. Smith, SC, USN
Deputy Director	Mr. C. Mehalic (GS-15)

Naval Audit Service Northwest Region

Director	CAPT R. E. Hurley, SC, USN
Deputy Director	Mr. R. E. Furstenthal (GS-15)

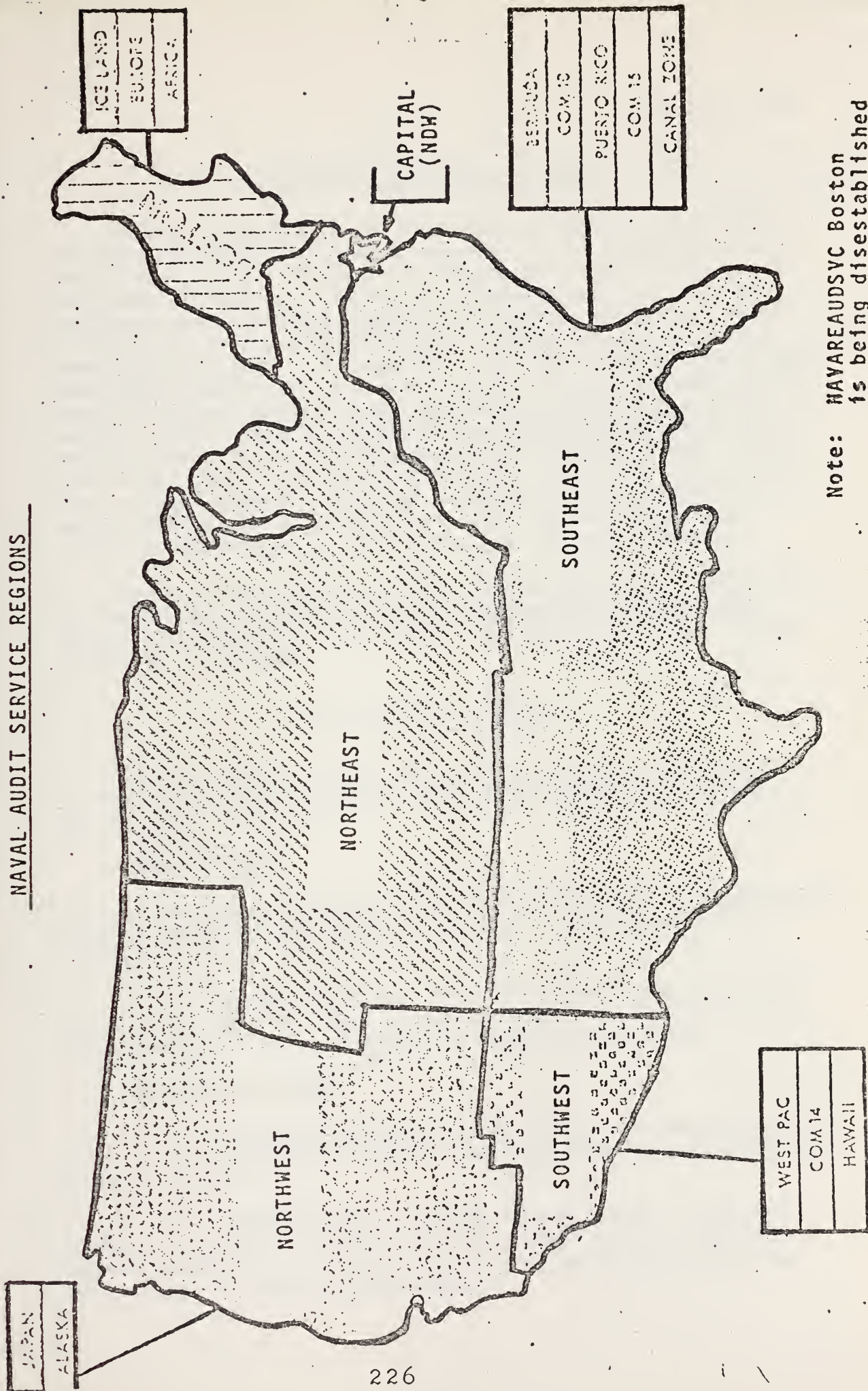
Naval Audit Service Southwest Region

Director	CAPT J. H. Sherman, Jr., SC, USN
Deputy Director	Mr. R. I. Reed, (GS-15)

Staffing (June 1973).

	<u>Executive</u>	<u>Admin & Support</u>	<u>Auditors</u>	<u>Total</u>
Civilian	30	64	383	477
Military	<u>18</u>	<u>0</u>	<u>23</u>	<u>41</u>
TOTAL	48	64	406	518

NAVAL AUDIT SERVICE REGIONS



Note: HAVAREAUDSVC Boston is being disestablished and consolidated with NAVAUDSVCNE in February 1974

MANAGEMENT APPROACH TO AUDITING

Internal auditing in the Department of the Navy is a staff function independent of line operations. It is a management tool; one of the controls available to management to use in accomplishing their objectives. Department of Defense audit policies prescribe a broad management approach to internal auditing. These policies stress the responsibilities of audit staffs to provide service to all levels of management, with the essential requirement that audit evaluations be objective, constructive, and independent of any influence other than facts bearing on the situation under review. The Secretaries of Defense and Navy have emphasized the value of audit in helping management identify deficiencies or undesirable conditions in order to initiate, plan, and take corrective actions required. Improved management and correction of known deficiencies serve the two-fold purpose of improving efficiency and helping to avoid Congressional or other criticism.

Audit concentrates on the functions most directly involved in accomplishing an activity's mission; the extent to which other functions are examined will depend substantially on their support of mission performance.

TYPES OF AUDIT COVERAGE

The Naval Audit Service workload is classified into several categories of audit coverage. Each of these general categories are defined as follows:

Mission Audits:

a. Periodic Audit. These audits provide for comprehensive audit coverage of organizational entities on a cyclical basis (generally one to five years).

b. Continuous Audit. On-site resident auditors at about 35 large organizations audit major functions on a cyclical basis. Over a period of time comprehensive coverage is provided.

Coordinated Audits:

a. Service-wide Audit. These major coordinated audits provide for a Department of the Navy review of a specific problem, program, or subject.

b. Regional Audit. Through this technique, a specific problem, program, or subject is given a broad review. Regional audits are similar to service-wide audits, except that the scope of coverage is limited geographically.

c. DOD Interservice Audit. These audits are planned and coordinated by the Deputy Assistant Secretary of Defense (Audit), and performed on an integrated basis with other DOD audit agencies to provide concurrent coverage of a problem, program, or subject.

Special Audits:

a. Systems Development Audit. Auditors review selected management information systems at various phases of the development process to ensure that controls and documentation are adequate and appropriate.

b. Audit Emphasis Program. This program provides some of the benefits of a service-wide or regional audit with a minimum of resources. A particular limited scope subject is covered at activities during scheduled mission audits. An Audit Emphasis Program report summarizes and analyzes findings applicable to the selected subject.

c. Appropriation and Fund Review. These reviews are directed at the overall management of a particular appropriation or fund; particularly at the responsible office and administering office level.

d. Local Command Request. Consultant or audit services of limited scope are provided by Naval Area Audit Services to local commanders under this program.

e. Management Consulting. Services are provided in response to a request from management. This project may or may not result in issuance of a report. Generally, report distribution is limited to the office or command requesting the service.

f. Special Request-Limited Distribution. Audit services provided in response to a particular command or office.

g. Special Request-Normal Distribution. Audit services provided in response to a particular command or office.

h. ADP Post-Installation Evaluation. A review to determine if a particular system is meeting the objectives intended. Reports are developed based upon schedules provided by the Information Systems Division of the Office of Chief of Naval Operations.

i. Commercial/Industrial Validation. These special reviews are provided in response to requests from the Chief of Naval Material.

AUDIT PLANNING

Periodic and Continuous Audits

In order to satisfy statutory and DOD-directed requirements for auditing Navy and Marine Corps activities on a regular basis, the Naval Audit Service maintains an inventory of activities. For each, an audit cycle of one to four years is prescribed, dependent upon the size, complexity or relative importance of the activity. Offices and activities too large or complex to be susceptible to total audit at one time are audited on a continuous basis by resident audit teams. Audit at these sites is planned along functional lines with the objective of providing comprehensive audit of the organization on a three-year cycle.

Service-wide and Regional Audits

Inputs are submitted to AUDGENAV by senior Naval and OSD organizations. A Naval Audit Planning Group (composed of flag officers), chaired by the Deputy Comptroller, with representatives from the Chief of Naval Operations, Commandant of the Marine Corps, Chief of Naval Material, and Fleet Commanders meets each year to review proposed audit subjects. This committee recommends major audit topics for the forthcoming fiscal year to ASN(FM). Fiscal Year 1974 Service-wide and Regional audit topics are:

Service-wide:

- Resource Management System (RMS) Reporting Procedures
- Integrated Logistic Support Program
- Evaluation of Execution of the Rotable Pool Concept
- Utilization of Data Processing Equipment Within the Naval Training Command
- Management of Test and Evaluation Programs for the Development of Naval Air Launched Missile Systems
- Initial Provisioning of New Installed Shipboard Equipment
- Management of Shipboard Reparables (Hull, Mechanical, Electrical and Electronics)

Regional:

- Survey of ADP Feasibility Studies for Initial Hardware Support of Major Management Systems
- Management of the NAVSHIPSYSKOM Planning, Engineering, Repair, and Alteration (PERA) Program
- Financial Management - Navy Recruiting Command
- Utilization of CHAMPUS
- Management of Automotive and Material Handling Equipment (MHE) Repair Parts

Technical Data Requirements in Hardware Contracts
Establishing an ADP Service Center in the Great
Lakes Naval Complex

COMMUNICATING AUDIT PRODUCT TO TOP MANAGEMENT

Digest

Each Naval Audit Report contains a tear-out DIGEST for use by senior management. They give a brief summary of coverage and findings for each report.

OSD "I" Cases

Significant findings and recommendations in certain Naval internal audit reports are selected by cognizant assistant Secretaries of Defense for the attention of the Secretary of Defense. These audit reports are designated as OSD "I" Cases and require the Secretary of the Navy to provide a Department of the Navy management position on the adequacy of actions taken or planned, the propriety of target dates for completion of action planned, and the recommendations not concurred in.

Navy "N" Cases

Certain significant findings and recommendations in Naval Audit Service reports are selected for the attention of the cognizant Assistant Secretaries, the Under Secretary, or the Secretary of the Navy. These reports are designated "N" Cases and require senior Navy and Marine Corps officials to provide a management position similar to the OSD "I" case requirement.

Bi-Weekly Report of Audit Reports Published

Bi-weekly letter reports are provided to the ASN(FM) which list individual audit reports published by the Naval Audit Service during each two-week period, including selected significant findings and recommendations. Copies of this report are provided to top-level managers within OPNAV, Fleet Commanders, and other major claimants.

Quarterly Index of Management

Improvement Options Identified by the Naval Audit Service

On a continuing basis, the Naval Audit Service compiles an Index each quarter of all items published in audit reports. This publication is widely distributed to Navy and Marine Corps managers, and the General Accounting Office. It is a codification of audit

findings and pinpoints specific management improvement options identified by audit. It has been endorsed by the Vice Chief of Naval Operations as a valuable management tool.

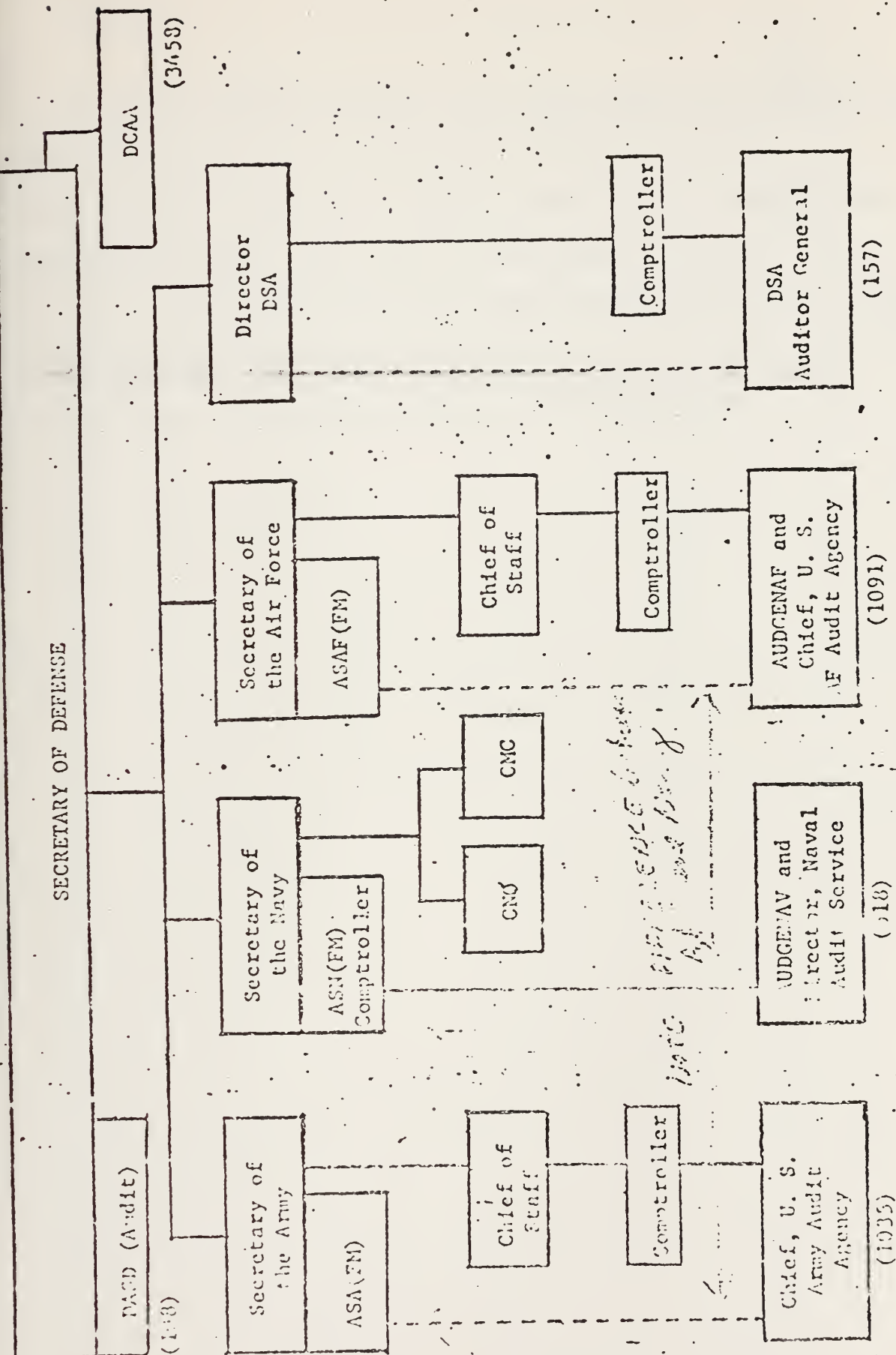
FISCAL YEAR 1973 RESULTS

During fiscal year 1973, the Naval Audit Service issued 212 audit reports containing 1735 findings and 2590 recommendations.

AUDIT MANUAL FOR MANAGEMENT

SECNAVINST 7510.7, the Department of the Navy Audit Manual for Management, cites statutory authority for the audit function and sets forth principles, policies, and procedures for auditing in the Navy and Marine Corps.

DOD AUDIT ORGANIZATIONS



(Staffing 6/30/73)

9. ASN(FM)

In the Army and the Air Force, the Audit organizations report to the Comptroller under the Chief of Staff. In the department of the Navy, the Auditor General reports to the Assistant Secretary for Financial Management who is also the Comptroller of the Navy. While the Audit service works closely with OPNAV and HQMARCORPS, this arrangement, where the Audit Organization reports to a presidential appointee is a key factor in promoting organizational independence.

RESOURCE MANAGERS GUIDE



FIELD ACTIVITIES

NAVSOP-3047

APRIL 1969

DEPARTMENT OF THE NAVY
OFFICE OF THE COMPTROLLER

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The Windward Naval Station (Case A)

In late April 1972, CDR Josey, Comptroller at the Windward Naval Station, reported to the Commanding Officer, Capt. Peters, that he had just had a phone conversation with the SERVPAC staff (Windward's type commander - CINCPAC is the major claimant) regarding the tentative funding and staffing availability for FY73. Although CINCPAC had not yet provided FY 73 tentative planning guidance to SERVPAC, they were aware that the Naval Stations must commence their planning and for that reason were providing tentative planning figures based on informal guidance they had received from CINCPAC. Exhibit 1 is a summary of the New Obligational Authoring and staffing ceiling provided to CDR Josey. Written confirmation of this information was promised within two weeks.

CDR Josey was extremely concerned as this tentative planning guidance was a 5% across-the-board reduction of FY 72 funding and personnel strength, and represented a substantial reduction in what the station had requested for FY 73 when preparing the budget a year ago. (See Exhibit 2). Informal guidance from SERVPAC had indicated no major known changes in the mission workload of the station; it was certainly not going to be less, but they knew of no major increase. SERVPAC indicated that they were aware this was an austere planning figure, but that this was a general situation throughout the Navy as a result of the reduced Vietnam effort and the current political climate.

The Naval Station was organized along rather typical lines with the exception that due to the absence of a shipyard close by, the station operated a rather extensive Ship Repair and Maintenance Department that serviced their own station craft as well as, on a reimburseable basis, homeported and transient ships. Additionally, the station provided services to several tenant commands on a reimburseable basis. Enclosure 3 is a breakout of the station cost centers showing total personnel and funds allotted for the current Fiscal Year. Expenditure information as of the end of March indicates that the composite of all cost centers will be within and very close to the obligational authority for FY 72.

CASE MATERIAL WAS PREPARED BY PAUL EISENHART AND LODGE
AND GERDEL FOR USE IN CLASS DISCUSSIONS AT NAVAL
GRADUATE SCHOOL NEITHER EFFECTIVE NOR INEFFECTIVE ADMINISTRATIVE
235

"Captain," CDR Josey began, "I am concerned with the proper approach to take with our cost center managers in developing our FY 73 Operating Plan. As you well know, we have continually been forced to plan and operate on a budget that is less than an optimum. The Department Heads have continually been forced to provide us with their requirement yet we are being forced to provide less and less to them each year in terms of personnel and financial resources without any lessening of their workload, and in many cases, we have forced them to absorb additional work-

"Yes, I understand that, Commander," replied CAPT Peters, "but this is becoming a fact of life with which we must learn to live. This is why I have been continually pushing the development of standards for the various functions we perform. Unless we have a base of reference for developing our budget properly, it is most difficult for us to criticize tentative planning figures and make an objective judgement or whether or not the funds provided are sufficient. By the way, how is your task group progressing on the development of standards?"

"Not too well, I'm afraid, Captain. As you know, LCDR Cooper has been actively pursuing that effort for the last six months. Good engineered standards have been established in the Public Works area and some of the Ship Repair and Maintenance functions. LCDR Cooper has been working with SR&M and supply and has come up with additional engineered standards. In addition, he has developed some engineered allowances for Medical, Dental, Fire and Security but we have made little progress in the other areas. It is just darn difficult to establish standards in the shop, the Command and Staff area, Civilian Personnel, Administration, and major areas of Supply. His next major area of effort, scheduled

commence on 1 June is Data Processing. We feel that some realistic standards can be developed there. We have been running into some opposition from some of the Post Center Managers. They seem to have the attitude/we are trying to develop something which will serve as a tool to crucify them later or at least reduce their funding levels."

"I see a couple of other major problems, Captain, in trying to develop a budget within the constraints of the tentative planning figures. We could reduce all cost centers by a direct 5% reduction of personnel and funds ~~and~~ ask that they submit their budgets in accordance with those constraints. But as you know some cost centers have certain ~~fix~~ed, or semi-~~fix~~ed costs, well like utilities for instance, which are not going to vary just because we got a budget reduction. A straight percentage cut is really not fair to these managers. A second problem is the reimburseables. We must provide reimburseable services within our personnel ceiling yet we have not ^{received a} firm indication of the level of reimburseables that will be provided by fleet units and tenant commands in FY 73. I would assume that they are undergoing some reductions in their level of funds but I have no idea how much. We have made an analysis of the support being provided this ~~year~~ ^{year} ~~though~~ and our prediction of \$1,250,000 for labor and \$500,000 for material is going to be very close."

Questions for Discussion:

1. Does this represent a fairly typical situation?
2. If you were CAPT Peters, what specific guidance would you give CDR Josev

egarding the preparation of the FY 73 Financial Operating Plan? What additional information might be required?

What can be done to minimize the reimburseable problems?

How could the existence/non-existence of standards for all departments be employed in approaching this situation? Do you see any problems that might arise under the existing level of standards development?

TENTATIVE FY73 STAFFING AND FUNDING AVAILABILITY FOR WINDWARD NAVAL STATION

FY 73 (Staffing) Average Paid Employment	1004
Labor Dollars (includes fringe)	\$9,394,000
Non-Labor Dollars (includes overtime)	\$2,600,000
Gross Dollars	\$11,994,000
Anticipated Reimbursements	\$1,750,000
Net Obligational Authority*	\$10,244,000

*The NOA shown above is the governing financial constraint. Funds may be allocated between labor and non-labor dollars in the financial operating plan as desired as long as total NOA is not exceeded and the number of civilian personnel on-board does not exceed the above constraints.

Exhibit 1

CURRENT APPROVED FY 72 STAFFING AND FUNDING

AUTHORITY, WINDWARD NAVAL STATION

FY 72 (Staffing) Average Paid Employment	1057
Labor Dollars (includes fringe)	\$9,849,000
Non-Labor Dollars (includes overtime)	\$2,737,000
Gross Dollars	\$12,586,000
Anticipated Reimbursements	\$1,750,000
Obligational Authority	\$10,836,000

April 1971 Request for FY 73 Staffing and

Funding Authority, Windward Naval Station

FY 72 (Staffing) Average Paid Employment	1125
Labor Dollars (includes fringe)*	\$10,765,000
Non-Labor Dollars (includes O/T)	\$3,000,000
Gross Dollars	\$13,765,000
Anticipated Reimbursements	\$2,000,000
New Obligational Authority Requested	\$11,765,000

*includes estimated \$250,000 wage increase for all wage board employees

Exhibit 2

TOTAL PERSONNEL AND FUNDS ALLOTTED BY COST CENTER

AT WINDWARD NAVAL STATION, FY72

Cost Center	Military	Civilian	Labor \$	Material \$	Total
-Command & Staff	15	12	100,800	12,000	112,800
-Comptroller	1	57	478,800	30,000	508,800
-Civilian Personnel	0	19	159,600	8,000	167,600
-Administration	7	30	252,000	20,000	272,000
-Data Processing	0	32 ² (7)	210,000	50,000	260,000
-Supply	42	109 ² (8)	848,400	200,000	1,048,400
R-Disposal	0	5	42,000	25,000	67,000
-Ship Rep& Maint	138	350 ² (60)	2,436,000	1,400,000	3,836,000
-Public Works	5	340 ² (44)	2,486,400	882,000	3,368,400
-Operations	68	6	50,400	40,000	90,400
-Medical	42	6	50,400	25,000	75,400
-Dental	30	3	25,200	18,000	43,200
-Security	2	40	336,000	12,000	348,000
M-Fire	0	48	403,200	15,000	418,200
Totals	350 ⁽¹⁾	1057 ⁽²⁾	7,879,200 ~~(7,910,720)~~	2,737,000	10,616,200

(1) Military allowances are not costed out under NOA

(2) Of the 1057 civilian ceiling strength, those in parentheses (total 119) are supported by reimburseables. The assumption made is that \$1,750,000 anticipated reimbursements for FY 72 includes \$1,250,000 labor and \$500,000 material.

() Labor costs are determined (for case purpose) on an average:

$$\frac{9,888,400 + 1,250,000}{1057} = \$10,500 \text{ avg. cost/employee/year}$$

Further, the acceleration rate for fringes is assumed to be 20%, thus direct cost of labor to cost centers is $\$10,500 \times 80\% = \$8,400$. The \$2,100 per employee is retrained and controlled by the controller but included in all internal expensing and reimburseable billing (total is 1,969,800 inc. fringes).

Exhibit 3

The Windward Naval Station (Case B)

CDR Josey, Comptroller at the Windward Naval Station, had just returned to his office after a lengthy discussion with his Commanding Officer, CAPT Peters, regarding the tentative budget and personnel ceilings provided to them by SERVPAC. Based on this tentative planning guidance, they were facing an apparent 5% reduction from FY 72 levels in personnel and funds for FY 73. This represented an even greater reduction in what they had originally requested for FY 73 during the FY 72 budget call cycle. In addition, there had been no indication on SERVPAC's part that any reduction in the workload or mission of Windward Naval Station would be made. On the contrary, they expected it to remain at least at the present level.

CDR Josey realized that it was imperative that he issue a budget call to the Departments as soon as possible in order to meet the deadlines imposed by SERVPAC, and even more important in his mind, to develop the reclama information which would indicate the effects of this reduction on the station's capabilities. The problem that had been nagging at CDR Josey ever since he had received this tentative planning guidance and had realized its impact, was how he ^{should} go about allocating the personnel and funds to the Departments in the budget call process. He perceived the following alternatives:

- 1) Impose no restraints and simply ask the Departments for their FY 73 requirements. Reductions would then be a matter of compromise between himself and the individual Department Heads with unresolvable conflicts to the XO for resolution.

THIS CASE MATERIAL WAS PREPARED BY PAUL EISENHARDT AND
LCDR DAVID GERDEL FOR USE IN CLASS DISCUSSIONS AT
THE NAVAL POSTGRADUATE SCHOOL, MONTEREY, CALIF. THIS CASE
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IVE HANDLING OF ADMINISTRATIVE SITUATIONS. 1972

Require the Cost Center Managers to justify only changes (plus or minus) current operating plans. Resolution would be handled as in alternative 1.

Require the Cost Center Managers to justify only changes in the FY 73 which they had submitted last spring. Resolution would be handled as in alternative 1.

Assign arbitrary operating targets in terms of personnel and funds to the Cost Center Managers based on the tentative planning figures. They would be required to respond within these restraints but would be encouraged to submit separate and what statements stating subsequent effects on capabilities /they would no longer be able to finish.

When going to see CAPT Peters, he had been hoping to get some specific direction as to what kind of approach to take even though he realized it was his responsibility. But the Captain had not given him any specific direction. In fact part of the discussion had strayed away from this specific problem and the Captain instead had concentrated on a discussion of standards. CDR Josey realized the importance of developing standards and fully realized that was the difficulty with alternative no. 4. With some Departments fully standardized, some partially standardized, some with none, how could he go about this allocation process fairly and in recognition of the various departmental workload requirements? Before attempting to try this, since he felt alternative no. 4 was his best choice, he decided to review the standard's development effort with Tom Cooper. Tom Cooper had been at Windward six months. He was an extremely bright young Corps officer with an MBA from Harvard. His last duty assignment had been

at a large Naval Supply Center where he had been intimately involved with the Defense Integrated Management Engineered Standards (DIMES) program in establishing standards for various functions of the Center. Due to CAPT Perer's intense (which was filling) desires to develop standards, a temporary augment billet / LCDR Cooper/had been obtained to concentrate on the development of standards.

When LCDR Cooper entered his office, CDR Josey filled him in on the tentative planning information and his conversation with Captain Peters. "Tom, I feel my best alternative in view of the reduction and timing is to assign tentative fund and personnel targets to the Cost Centers but I don't feel a constant percentage cut for everyone is in the best interests of the station. We have certain fixed costs that we will continue to incur, oh ~~84~~⁸⁴, like fire and security. On the other hand, I can only assume the validity of these type costs based on historical information. The padding or inefficiency that exists may be carried forward because I have nothing better to go on. What progress have you made in your efforts that I can use immediately in making the Cost Center allocations?"

"Well, as you know," replied Tom, "I have been trying to develop one of four kinds of standards: engineered, engineered fixed allowance, statistical and statistical fixed allowances for all our functions. I have made some progress, particularly in the engineered fixed allowance area, but I am afraid that the money and people we have been able to cover are relatively minor compared to the total on board. This report shows the results of engineered fixed allowances established for Medical, Dental, Fire and Security (see Exhibit 1). Fortunately, I have received the concurrence of the Department Heads concerned. Utilization of their people in examining the specific functions of each Department was most help--

in obtaining their support. "

"This should be somewhat of a help, Tom," replied CDR Josey as he reviewed Exhibit 1, "but you are right in that we really need to get after the big people money users. How are you coming in Supply and Ship Repair and Maintenance?"

"I feel I should have Supply completely covered by 15 June but I am running opposition from CDR Simcox and his civilian assistant. The Ship Repair and Maintenance Department is a horse of another color. The work done certainly lends itself to engineered standards but because the great majority of the work is ad hoc, it takes a considerable inspection planning and estimating branch to develop the standards, write the specific job order, and then monitor the variances. There is a paradox here in that the cost must rise in order to establish the controls before we can see the reduction effect of these added controls. Now, if R&M was NIF funded, we could build this added control development into our overhead rate and recapture the cost fairly rapidly, but under our system, we are not allowed to change direct labor and material. The station must absorb the overhead costs of the Department."

"I sympathize with that problem, Tom" replied CDR Josey, "but we aren't going to solve it in time to have any effect on my current problem. Concentrate on those supply standards. If you can beat your 15 June target, maybe I can use them during my final juggling act." After Tom left, CDR Josey decided he had procrastinated long enough and commenced to draft a budget call utilizing the standards where he had them and using his best judgement where standards did not exist (see Exhibit 2).

After completing the budget call notice, he began to wonder about the reimburseable situation. Although he had encouraged direct liason between the customers and the Cost Center Managers in the budget call, he realized the criticality that any possible customer changes might have in view of the reduced personnel setting situation. For instance, an overall increase in customer-provided funds could result in an inability to accomplish station requirements or else a refusal to provide all the services desired by a customer. Likewise, major reductions would mean finding excessive station labor without the ability to provide them with materials. With these problems in mind, he decided it would be a good idea to draft a letter to all customer activities for the Captain's signature explaining the constraints imposed on the station and soliciting their requirements for FY 73 (see Exhibit 3).

Questions for Discussion:

- 1) What do you think of CDR Josey's alternatives in regards to the allocation process? Can you suggest any alternative methods?
- 2) What is the significance of the Reduction-in-Force costs discussed in Exhibit 1?
- 3) Analyze and discuss the philosophy and content of Exhibit 2.
- 4) What are some of the characteristics, advantages and disadvantages of the various standards discussed by LCDR Cooper?
- 5) What would your approach be to obtaining valid reimburseable information if you were CDR Josey?

RESULTS OF LCDR COOPER'S ANALYSIS

	Current Civilian Allowance	EFA ¹	Net Gain (loss) (2)
al	6	4	
1	3	3 ²	0
	40	36	(4)
ity	48	42 ³	(6)

Engineered fixed allowances are determined by examining a department where the functions are pretty repetitive and the same quantitative measures of numbers of records, phonecalls, clock stations punched, security routes travelled, visitor passes issued, swing shift, 24 hour coverage and etc. are made and then an allowance established which provide the coverage of these functions. These functions must be subject to time-motion and sampling techniques. This includes a receptionist/switchboard operator who previously served Dental and will now provide coverage to both Medical and Dental. In order to achieve this reduction, one additional one-half ton pickup must be provided to security.

WINDWARD NAVAL STATION

Anywhere, California

24 April 1972

WINDWARD NS NOTICE 7100

From: Commanding Officer

Subj: Annual Budget Estimates for Fiscal Years 1973, 1974

Re: (a) Phonecon between SERVPAC and CDR Josey, Code 01, of 19 April 1972

(b) - (e) various station and SERVPAC Budgeting instructions

Encl: (1) Preliminary FY 73 Planning Targets for personnel and funds

(2) Budget Request Form 7303

1. Purpose. To promulgate requirements and instructions for the preparation of the FY 73 and FY 74 budget submissions

2. Guidance

a. Reference (a) has assigned tentative FY 73 staffing and funding availability for the Command as follows (dollars in thousands):

FY 73 (staffing) Average Paid Employment	1004
Labor Dollars (includes fringe)	\$ 9,394
Non-Labor Dollars (includes O/T)	\$ 2,600
Gross Dollars	\$11,994
Anticipated Reimbursements	\$ 1,750
New Obligational Authority	\$10,244

b. The funds and personnel authorized by reference and reflected on enclosure (1) are substantially less than the budget which was requested for FY 73. Every effort has been made to distribute the tentative funds and personnel on an equitable basis. No funds have been withheld for any contingencies.

c. It should be well understood that these planning targets in enclosure (1) also represent a reduction of personnel. The constraints imposed will not allow us to fund any employees in excess of 1004. This will require the immediate attention of all Department Heads allocated. A personnel reduction plan must be developed concurrently with the development of the FY 73 budget.

Exhibit 2

Keep in mind that a Reduction-in-Force situation cannot be calculated at the average employee cost. Civilian Personnel will be providing specific guidance in this area shortly.

1. Specific information regarding the maintenance of Real Property Floor and Disposal Limitation have not yet been received. Planning targets in Enclosure (1) are based on FY 72 Limitations.
2. Information received to date indicates no significant change in workload requirements from FY 72.
3. References (b) - (e) contain cost accounts applicable to the Windward Naval Station under the Resources Management System and procedures for budget preparation and submission. They shall be used in budget preparation.

Action

- a. For FY 73, all cost center managers will prepare enclosure (2) for each quarter of the year. Budget estimates will be prepared by sub-functional category and cost Account level. Totals for the year by sub-functional category shall be shown on the fourth quarter form 7303.
- b. Preparation of the FY 73 budget shall be within the constraints of enclosure (1). Reclamas for requirements in excess of these constraints will be provided on separate sheets of the 7303 identifying the marginal additional requirement by cost account. These increases must be tied to such factors as increased workload, foregone services, work improvement methods and tied into standards where they are available.
- c. For FY 74, all cost center managers shall prepare enclosure (2) for the entire year identifying requirements to the sub-functional category only.
- d. Liason with customers providing reimburseables is encouraged by all cost center managers to ascertain the expected level of reimburseables prior to preparation of the FY 73 budget. Where possible, the reimburseables projected should be the result of concrete information or best estimates rather than simply historical information.
- e. The FY 73-74 budget package shall be submitted to the Comptroller prior to 18 May 1972.

Applicability. This notice is applicable to all Cost Center Managers of the station and is distributed to all tenant commands to facilitate the providing of reimburseable data.

F. JOSEY
By direction

Distribution List:
1) Cost Center Managers
2) Reimburseable Tennants and Fleet Activities

PRELIMINARY FY 73 PLANNING TARGETS

Cost Center	FY 72 Civ Ceiling	FY 73 Civ Ceiling	Labor	Material \$	Less Antic Reimb Labor Matl	Total
A-Command & Staff	12	11	\$116,600	12,000		128,600
B-Comptroller	57	56	593,600	30,000		623,600
C-Civilian Personnel	19	18	190,800	7,000		197,800
D-Administration	30	29	307,400	18,000		325,400
E-Data Processing	32	32 (7)	339,200	52,000	73,500	312,700
F-Supply	109	105 (8)	1,113,000	205,000	84,000	1,189,000
FR-Disposal	5	4	42,400	25,000		67,400
G-Ship Rep & Maint	350	338	3,582,800	1,650,000	630,000	4,302,800
H-Public Works	340	320	3,392,000	1,005,000	462,500	3,784,500
I-Operations	6	6	63,600	35,000		98,600
J-Medical	6	4	42,400	22,000		64,400
K-Dental	3	3	31,800	16,000		47,800
L-Security	40	36	381,600	10,000		391,600
M-Fire	48	42	445,200	13,000		458,200
	1057	1004	10,642,400	3,100,000	1,250,000	11,992,400
		(2)	[10,644,000]	[3,100,000]		[11,994,000]

(1) Labor calculated at \$10,600/employee, slight rounding in reimb. column

(2) Difference of \$1600 in tentative funding and column totals due to rounding errors

Case B
(11-12-9)

From: Commanding Officer, Windward Naval Station

To: Distribution List

Subj: Customer Support Level Requirements for FY 73;
Request for

Ref: (a) Windward Naval Station Notice 7100 of
24 April 1972
(b) Windward NS Notice 7304.1E of 2 February 1972

Encl. (1) Suggested Format for submitting FY 73 requirements

1. Tentative planning guidance received by this station for FY 73 indicates reductions in both personnel and funds. Reference (a) is the annual budget call which authorizes direct liason between Windward Cost Center Managers and various reimburseable customers to determine the level of support required in FY 73.
2. It is realized that many tennant activities may not yet have ^{firm funding} ~~him~~ finding guidance for FY 73 but it is essential for our planning of customer work that every effort be made to provide us with the most realistic estimates available at this time. These estimates should be constrained by what is expected to be funded rather than requests made last year or simply work desired. If is particularly important that any increases over FY 72 levels be fully documented as this information will be required to assist us in justifying additional ^{civilian personnel} ceiling points.
3. In addition to the information provided in direct liason under the auspices of reference (a), it is requested that each addressee provide an estimate of FY 73 requirements to Code 01 in the format of enclosure (1) no later than 15 May 1972. Reference (b) should be used for pricing units. Your cooperation is solicited and appreciated and will greatly aid our ability to provide for your requirements.

H. T. PETERS
Captain, USN

Distribution List:
All Reimburseable and Fleet Activities

From:

To: Windward Naval Station (Attn: Code 01)

Subj: Reimbursable Support to be required in FY 73

Ref: (a) CO., Windward Naval Station of 28 April 1972

1. In accordance with reference (a), the following requirements for services to be provided by Windward Naval Station on a reimbursable basis for FY 73 are submitted:

<u>Description of Service</u>	<u>Units</u>	<u>UM</u>	<u>Cost</u>	<u>Material</u>	<u>Total</u>
<u>Examples</u>					
ADP Services	2	M.Y.	\$21,200	700	\$21,900
Bldg. Improvements	3	L.S.			42,000
Supply Services	1	M.Y.	8,300	16,000	24,300
Etc.					
Total			29,500	16,700	88,200

2. These estimates are based on (describe source of funding information) and have been reviewed with codes (state which Cost Center Managers) of the Windward Naval Station

J. DOE
By direction

Enclosure (1) to Exhibit 3

You can't take a 5% cut in personnel and also a 5% cut in labor \$ if there is a pay raise involved without lowering the average pay grade enough to account on an average basis for the pay raise.

The general situation when there is a cutback is to RIF the low level workers and keep the more experienced and presumably more efficient higher level workers. But this raises the average pay level (without considering pay raises).

It is apparent that the use of an average wage figure of \$10,600 used in calculating the labor cost in Encl. (1) of the Case B is very irrelevant. The personnel in the various cost center will be different types of employees, some cost centers will be composed primarily of higher GS ratings, others of lower WB ratings. The \$250,000 WB pay raise should apply only to the C.S. that have WB employees and on the basis of the # of WB employees employed in the C.C. The totals at the bottom of Encl. (1) to Case B should agree with those on Exhibit 1, Case A.

On 1 May 1972, CDR SIMCOX, the Windward Naval Station Supply Officer, received Notice 7100 providing the FY 73 personnel and budget figures and requesting the FY 73 and 74 budget submissions. CDR Simcox was the Cost Center Manager for both Supply and Disposal functions. Not being involved in the day to day budgeting procedures, he immediately called Bill Toske, his Budget Branch director and asked him to come to the office. Bill was a GS-11 budget analyst who was a native of the area and had worked at the station 18 years, starting in Public Works as a GS-4 financial clerk.

While waiting for Bill, CDR Simcox pulled out the approved FY 72 budget and noted the following comparisons:

	No. Civilians	Labor \$	Mat'l \$	Total
SUPPLY: FY 72	109	848,400	200,000	1,048,400
FY 73 TAPF *	105	1,029,000	160,000	1,189,000
DISPOSAL: FY 72	5	42,000	25,000	67,000
FY 73 TAPF	4	42,400	25,000	67,400

*Less Reimbursables

Studying this analysis, CDR Simcox became somewhat perplexed. "The FY 73 budget call indicated a decrease in personnel and funds," he thought to himself, "and although I have lost a few people, I actually have more funds than last year."

About this time Bill entered his office saying: "This must be about next year's budget CDR. I hear that Controller has cut the rug out from under us again. I tell you, between him and that idealistic LCDR Cooper, they must think we can operate this department on faith alone. If they want us to do a job, they have got to provide us with the resources and some flexibility."

"Have you seen the tentative planning figures for FY 73 yet Bill?"

"Well, no. But I know how it is. When there is a cut to be made, they always take it out of the support function's hide. They expect us to work miracles while the more visible departments maintain and increase their levels of funding and people."

"Here is the Notice, Bill (See Exhibit 2, Case B). I would like you to make a

thorough and positive review of it. I have already taken a look at the overall

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 FOR USE IN CLASS DISCUSSIONS AT THE NAVAL POSTGRADUATE SC,
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 EFFECTIVE NOR INEFFECTIVE MANAGEMENT OR ADMINISTRATIVE SITUATIONS

figures for FY 72 & FY 73 and find some incongruencies (gives him data presented earlier). I suggest you first make a review of the overall funding and personnel strength situation for Supply and Disposal and its impact for FY 73. Get back with me on that in a couple of days and then we will proceed with a thorough review and preparation of the requirements at the cost account level. Make sure you use the performance data on our most recent 2168 and 2169 reports. You might also review the Dimes Report and see what LCDR Cooper has up his sleeve regarding new or revised standards."

Returning to his office, Bill first reviewed the FY 72 & 73 analysis provided him by CDR Simcox. The results of his analysis are shown in Exhibit 1. A review of the existing cumulative NavCompt 2169 indicated that expenses were running at about the expected level with the exception of reimburseables, but this ~~was~~ was normal since tenant commands tended to hold funds for material purchase until the Fourth quarter. (See Exhibit 2). Exhibit 3 is a description of the various cost accounts used in the Supply Department with the work unit descriptions where available. Exhibit 4 is the approximate man-year distribution by major cost account codes for the Supply Department for FY 72.

In order to get a feel for any changes in existing funding levels forecast for FY 73, Bill felt he had better get in contact with the various branch managers and major customers. In view of the reductions, he felt this more useful than utilizing the FY 73 budget which was prepared last spring. In going to see and calling these various individuals, he asked the basic question: "Do you foresee any additional requirements for funds or personnel in FY 73 over your existing levels? If so, what are they?"

This review led to the following various inputs:

LTJG Smith, Food Services Officer - "Our civilian food service contract expires on 30 June. Next week we will be advertising a new contract, and I fully expect at least a 33% increase in the annual price due the minimum wage increase to \$2.20/hr. That means our existing contract of \$120,000 will approximate \$160,000 (contract expenses are budgeted under material)."

Joe Harris, Traffic Branch - "We are going to be picking up a considerable workload with the retrograde material coming into Oakland and Travis. In addition, the tremendous household moves expected in July and August due to officer early outs and lack of money during the latter part of FY 72 is going to mean a lot of overtime in the Personal Property office. I would estimate an additional man-year for freight and at least \$1500 overtime for the girls."

Art Lomax, Storage and Warehousing - "Bill, you know that new general warehouse will be completed in September. That means consolidation of material from three old warehouses which are being demolished and it has to be done rapidly, and on weekends if we are going to maintain our support. I'd say \$4000 for overtime at a minimum."

Hal Jones, Inventory Control - "What does this mean? CDR Simcox promised me two more billets on 1 July and I had them in my budget last year. You know we are under pressure to increase our stocking levels to support the new DD963's. The Spot Supply Inspector endorsed this requirement. Take them out of someone else's hide; but I have got to have those 2 billets."

Sam Newcomb, Procurement Operations - "Due to the increased support requirements of new tenant commands and the DD963's, I have projected \$800,000 in contracting next year with an increase to 4200 line items. That translates into \$61,800 at my current actual unit costs or an increase of at least one man-year for the branch. We've got to have it to operate."

Three days had passed and Bill knew he was overdue on giving the CDR the general background he had asked for. He had a lot of information, but he wasn't sure what to do with it.

QUESTIONS FOR DISCUSSION:

1. If you were Bill, what would you do?
2. What are some of the strengths/weaknesses of Exhibit 2?
3. Given that engineered, engineered fixed, statistical and statistical fixed allowances can be developed by LCDR Cooper, discuss their applicability in regard to Exhibits 2 & 3.
4. What do you think of Bill's approach to determining FY 73 requirements? Now that he has these various inputs, how is he going to use them?

Analysis of FY 72 & FY 73 Funds and
Personnel For the Supply Department

The basic difference, in addition to the decreased number of personnel in FY 73, is that the FY 73 labor figure includes the 20% accelerated leave figure which must be carried as a credit.

<u>Direct Support</u>	<u>No. Personnel(1)</u>	<u>Avg. Direct Cost</u>	<u>Total Dir Labor</u>	<u>Avg. Fringe</u>	<u>Total Fringe</u>	<u>Total Labor</u>
FY 72	101	\$8400	848,400	2100	212,100	1,060,500
FY 73	97	\$8480	822,560	2120	205,640	\$1,028,200
<u>Reimbursable Work</u>						
FY 72	8	\$8400	\$67,200	\$2100	\$16,800	\$84,200
FY 73	8	\$8480	\$67,840	\$2120	\$16,960	\$84,800

Taking out reimbursables of 8 man-years and \$50,000 material for both FY 72 & FY 73 results in the following comparison of the supply function.

	<u>No. People</u>	<u>Labor Dollars</u>	<u>Material</u>
FY 72:	101	1,060,500	\$200,000
FY 73:	97	1,028,200	\$160,000
Change	(4)	(\$32,300)	(\$40,000)

(1) Less those supported by Reimbursables.

Exhibit 1

WINDWARD NAVAL STATION

LMSC	FC	CA	TITLE	EXPENSES		WORK UNIT		UNIT COST		STD.	BCKLOG
				Actual	Budget%	Actual	Budget%	Actual	Budget%		
6500			Supply Dept.								
	E1	2110	Receipt Functions	\$26,000		6,000		4.33			1600
	E1	2121	Packing Functions	45,000							
	E1	2123	Bin Issue Ops	16,000		94,120		.17			3200
	E1	2124	Shipping Functions	82,000							
	E1	2132	Rewarehousing	34,000							
	E1	2136	Inventory Functions	36,000		15,000		2.4			1100
	E1	2190	General Storage	96,000		24,000		4.00			12500
	EZ	21	Direct Reimb.	39,000							
	E1	2210	Keon Processing	28,000		73,750		.38			2460
	E1	2220	Receipt Control	40,000							
	E1	2310	Freight Management	70,000							
	E1	2330	Personal Property Ops.	80,000		444				48	
	E1	2390	Traffic Management	92,000							
	EZ	23	Direct Reimb.	27,000							
	E1	2410	Supply Dept. Supp.	63,000							
	E1	2590	Inventory Control	73,000							
	E1	2710	Procurement Planning	28,000		3,100		9.00			429
	E1	2720	Contract Execution	15,000		460,000		.03			642,000
	E1	2790	Overall Proc. Mgmt.	11,000							
	EZ	27	Direct Reimb.	6,000							
	E1	1R80	Acq. Minor Property	32,000							
	E1	1R8A	Instll. Minor Property	13,000							
	E1	1R8B	Maint Minor Property	11,000							
	E1	1RS0	Summer Aid/Stud. Lbr.	9,000							
	E1		Direct Prod. Exp.	900,000							
	EZ		Total Reimb.	72,000	- 55%						
	S1	9911	Oper. Mess Hall/Galley	97,000		136,000		.71			
	S1	9943	Clothing Stores Func	8,000		49,000		.16			
	S1	9961	Furn. Replacement	16,000							
	S1	9962	Furn. Maintenance	4,000							
	S1		Direct Prod. Exp..	125,000							
	D1	1D60	Training	9,000							
	D1	1RH0	Sick Leave	17,000							
	D1	1RK0	Holiday Leave	31,000							
	D1	1RP0	Leave Acceleration	163,000							
	D1		Direct Prod. Exp.	106,000							

LMC	FC	COST ACCOUNT	Supply Operations	OUTPUT OR WORK UNIT DESCRIPTION
6500	E1	2110	Receipt functions	Measurement ton
6500	E1	2121	Packing functions	None
6500	E1	2123	Bin Issue Operations	Line items issued
6500	E1	2124	Shipping functions	None
6500	E1	2132	Rewarehousing functions	None
6500	E1	2136	Inventory functions	Line items
6500	E1	2190	General Storage & Warehouse Support functions	Direct Labor
6500	E1	2210	Requisition Processing (Issue Control) func.	Line items
6500	E1	2220	Other Stock Control (Receipt Control) func.	None
6500	E1	2310	Freight Management functions	Line items
6500	E1	2330	Personal Property Operations	Applications
6500	E1	2390	Traffic Management Support functions	None
6500	E1	2410	Supply Department Support functions	None
6500	E1	2590	Inventory Control Support functions	None
6500	E1	2710	Procurement Planning functions	Procurement line item processed
6500	E1	2720	Contract Execution functions	Procurement action processed
6500	E1	2790	Overall Management functions of Procurement Operations	None
6500	E1	1R80	Acquisition of Minor Property	N/A
6500	E1	1R8A	Installation of Minor Property	None
6500	E1	1R8B	Maintenance of Minor Property	None
6500	E1	1RS0	Summer Aid/Student Aid Labor	None
6600	S1	9911	Operation of Mess Halls and Galleys	Daily rations issued
6600	S1	9943	Clothing Stores functions	Volume of sales
6600	S1	9961	Acquisition, replacement of furniture & furnishings	None
6600	S1	9962	Maintenance & repair of furniture & furnishings	None

Supply Department Man-Year Distribution

For FY 72

<u>Cost Account</u>	<u>Direct Station Effort</u>	<u>Reimb.</u>	<u>Total</u>
2100 Storage & Warehousing	29.0	3.8	32.8
2200 Stock Control	7.8	.6	8.4
2300 Traffic Management	18.0	1.1	19.1
2400 Overall Supply Support	5.3	---	5.3
2500 Inventory Control	5.9	---	5.9
2700 Procurement Operations	5.0	.4	5.4
IR Miscellaneous - Property, Students	1.0	---	1.0
9900 Personnel Support	3.2	---	3.2
ID Civ. Manpower Management	1.2	.1	1.3
IRH, K, P - Leave	<u>24.6</u>	<u>2.0</u>	<u>26.6</u>
Totals	101	8	109

Exhibit 4

THE NAVY INDUSTRIAL FUND
A TOOL FOR EFFICIENCY AND ECONOMY

By

Fred Y. Fellows
Lieutenant Commander, (SC), USN

Bachelor of Science

United States Naval Academy, 1962

A Thesis Submitted to the School of Government and
Business Administration of The George Washington
University in Partial Fulfillment of the
Requirements for the Degree of Master of
Business Administration

June, 1970

Thesis Directed by

Michael Graham Gallagher, J. D., C.P.A.

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